

Registered Number: OC450708

PARAGON COVERED BONDS LLP

Report and Financial Statements

For the year ended 30 September 2025

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CAUTIONARY STATEMENT

Sections of this Annual Report, including but not limited to the Members' 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 Paragon Covered Bonds LLP ('the Partnership'). 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 management committee in good faith using information available up to the date on which they approved this report, and the Partnership 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 and UK Listing Rules and the Disclosure Guidance).

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 Partnership 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 Partnership'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 Partnership operates) and the consequences thereof; actions by the Partnership'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; 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 Partnership operates.

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

MEMBERS' REPORT

The designated members submit their Report and the audited Financial Statements of Paragon Covered Bonds LLP ('the Partnership'), a limited liability partnership registered in England and Wales with registration no: OC450708, for the year ended 30 September 2025. The preceding period was from 19 January 2024 (date of incorporation) to 30 September 2024.

PRINCIPAL ACTIVITIES

The Partnership is a special purpose vehicle, operating in the United Kingdom, whose purpose is to guarantee covered bonds issued by Paragon Bank PLC (the 'Bank') by acquiring mortgage loans and their related security (the 'Mortgage Portfolio') from the Bank (the 'Originator') pursuant to a Mortgage Sale Agreement ('MSA') entered into on 24 February 2025. The Bank is a wholly owned subsidiary of Paragon Banking Group PLC (the 'Group'). The initial purchase under the MSA took place on 11 March 2025, during the year, when trading commenced. The members are not aware, at the date of this report, of any likely major changes in the Partnership's activities in the next year.

The Partnership also enters into interest rate swap agreements with the Bank, to mitigate the interest rate risk inherent in the fixed rate nature of loan accounts included in the Mortgage Portfolio. The Partnership funds its purchases under the MSA using loans from the Bank, the terms of which replicate the terms of covered bonds issued to external investors by the Bank.

The activities of the LLP are governed primarily by a suite of transaction documents relating to the Bank's £5 billion covered bond programme (together, the 'Programme Documentation'), which are published on the Group's corporate website at www.paragonbankinggroup.co.uk. The structure has been established as part of the Group's financing arrangements and no business activities beyond those mandated by the Programme Documentation are undertaken.

Under International Financial Reporting Standard 9 – 'Financial Instruments' ('IFRS 9'), in a legal sale and purchase transaction where the transferor retains substantially all the risks and rewards associated with the transferred assets, the transferee must account for the transaction as a financing transaction, rather than as a sale, notwithstanding the legal form, and does not recognise the transferred assets. The terms of the MSA and related documents within the Programme Documentation result in the Originator retaining the risks and rewards of ownership and hence the Partnership does not account for the mortgage loan balances in its accounts but instead accounts for a 'Deemed Loan' representing its interest in the Mortgage Portfolio.

During the year mortgage loans with a gross current accounting balance of £943.0 million were acquired at the time of acquisition under the MSA (2024: £nil) and new deemed loan balances of £500.0 million were recognised in respect of those assets (2024: £nil) (note 7).

REVIEW OF THE YEAR

As shown in the Partnership's profit and loss account on page 10, the Partnership's net interest income has increased to £1,031,000 (2024: £nil). This was due to trading commencing in the current year when the initial purchase under the MSA took place on 11 March 2025. The operating profit before allocating profits to its members was £2,000 (2024: £nil).

The balance sheet on page 11 of the Financial Statements shows the Partnership's financial position at year end. It shows both the deemed loan asset and the term loan liability which started in the current year. Cash held by the Partnership increased from £nil to £19,294,000 during the year. The cash held by the Partnership relates to redemption cash received that will be paid down to the Bank on the next interest payment date.

During the year the Bank issued covered bonds to the value of £500.0 million to external investors (2024: £nil), making term loans to the Partnership of the same value.

At the end of the year the Partnership was providing guarantees on covered bonds with a total principal value of £500.0 million (2024: £nil), which were secured by a Mortgage Portfolio with a gross current balance of £891.6 million (2024: £nil).

MEMBERS' REPORT (CONTINUED)**PRINCIPAL RISKS AND UNCERTAINTIES**

The Partnership's activities are exposed to a variety of financial risks, the Partnership is required to follow the requirements of the Group risk management policies, which include specific guidelines on the management of interest rate and credit risks, and advice on the use of financial instruments to manage them. An analysis of the Partnership's exposure to risk, including financial risk, and the steps taken to mitigate this risk is set out in note 14 and a discussion of critical accounting judgements is set out in note 17.

GOING CONCERN

The operations of the Partnership are limited by the terms of the Programme Documentation, which it has operated in accordance with throughout the year, and the market risks related to the financial assets and liabilities of the Partnership have been economically hedged. In addition, the overcollateralisation of the Partnership's liabilities provided by the Mortgage Portfolio significantly mitigates liquidity risk.

The designated members have assessed the current and forecast financial performance of the Partnership in conjunction with their analysis of the risks it faces and the requirements of the Programme Documentation. Based on this analysis, the designated members have concluded that they have a reasonable expectation that the Partnership will continue in operational existence and meet its liabilities as they fall due for a period of at least twelve months following the date of approval of the Partnership's accounts. They have therefore adopted the going concern basis in preparing the financial statements.

DESIGNATED MEMBERS AND MANAGEMENT COMMITTEE

The following were Designated Members of the Partnership during the year:

Paragon Bank PLC

Paragon Covered Bonds Finance Limited

AUDITOR

The Partnership began trading on 11 March 2025 and therefore the accounts for the year end September 2025 became subject to an audit. The Directors therefore appointed the auditors of the Group, KPMG LLP as auditors for the Partnership.

The members have taken all necessary steps to make themselves and the Partnership's auditor, KPMG LLP, aware of any information needed in preparing the audit of the Annual Report and Financial Statements for the year, and, as far as each of the members is aware, there is no relevant audit information of which the auditor are unaware.

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

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

ENVIRONMENT

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any impacts that might result from the Group's activities. The Partnership operates in accordance with group policies, which are described in the Group's 2025 Annual Report, which does not form part of this Report. Further information can also be found in the Group's 2025 Responsible Business Report (published on the Group's corporate website), which does not form part of this report.

MEMBERS' REPORT (CONTINUED)

EMPLOYEES

The Partnership has no employees. All operational services are provided by employees of the Group. The Group's employment policies are described in the Group's 2025 Annual Report, with supplementary information included in the Group's 2025 Responsible Business Report, neither of which forms part of this report.

This report was approved by the members:



P H Whitaker

as director of Paragon Covered Bonds Finance Limited

Member of Paragon Covered Bonds LLP

13 February 2026

STATEMENT OF DESIGNATED MEMBERS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE MEMBERS' REPORT AND THE FINANCIAL STATEMENTS

The designated members are responsible for preparing the Annual Report, the Members' report and the Partnerships financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts & Audit) (Application of Companies Act 2006) Regulations 2008 requires the designated members to prepare Partnership financial statements for each financial year. Under that law the designated members have elected to prepare the financial statements in accordance with United Kingdom accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under Regulation 8 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Partnership and of the profit or loss of the Partnership for that year. In preparing these financial statements, the designated members are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant and reliable
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess the Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the Partnership or to cease operations, or have no realistic alternative but to do so

Under Regulation 6 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 the designated members are responsible for keeping adequate accounting records that are sufficient to show and explain the Partnership's transactions and disclose with reasonable accuracy at any time the financial position of the Partnership and enable them to ensure that its financial statements comply with the Companies Act 2006, as applicable to limited liability partnerships. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Partnership and to prevent and detect fraud and other irregularities.

This report was approved by the Members:



P H Whitaker

as director of Paragon Covered Bonds Finance Limited

Member of Paragon Covered Bonds LLP

13 February 2026

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON COVERED BONDS LLP

Opinion

We have audited the financial statements of Paragon Covered Bonds LLP ("the LLP") for the year ended 30 September 2025 which comprise the Profit and Loss Account, Balance Sheet, Statement of Movements in Members' Interests and related notes, including the accounting policies in note 16.

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the LLP as at 30 September 2025 and of its result for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the LLP in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

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

In our evaluation of the members' conclusions, we considered the inherent risks to the LLP's business model and analysed how those risks might affect the LLP's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

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

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

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PARAGON COVERED BONDS LLP (CONTINUED)**

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of the members' directors as to whether they have knowledge of any actual, suspected or alleged fraud, and inspection of policy documentation as to the high-level policies and procedures of Paragon Banking Group plc ('the Group', of which the LLP is a part) to prevent and detect fraud, and the Group's internal channel for 'whistleblowing'.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because of the limited judgement involved and limited pressures or incentives for management to manipulate revenue.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. This included searching for those journal entries posted and approved by the same user, journal entries posted to seldom used accounts, unbalanced journal entries and journal entries including specific descriptors, and testing any journal entries identified where applicable.

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

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

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

The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the LLP is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related LLP legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PARAGON COVERED BONDS LLP (CONTINUED)**

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

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

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

Other information

The members are responsible for the other information, which comprises the members' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Companies Act 2006 as applied to limited liability partnerships we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Members' responsibilities

As explained more fully in their statement set out on page 5, the members are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the LLP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the LLP or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

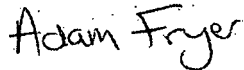
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit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

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

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PARAGON COVERED BONDS LLP (CONTINUED)**

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

This report is made solely to the members of the LLP, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Adam Fryer (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

13 February 2026

PROFIT AND LOSS ACCOUNT**YEAR ENDED 30 SEPTEMBER 2025**

	Note	2025 £000	2024 £000
Interest receivable and similar income	2	14,602	-
Interest payable and similar charges	3	(13,571)	-
Net interest income		<u>1,031</u>	<u>-</u>
Operating expenses	4	(1,029)	-
Operating profit, being profit on ordinary activities before members' remuneration and profit share	5	<u>2</u>	<u>-</u>
Operating profit, being profit on ordinary activities before members' remuneration and profit share		2	-
Allocation of profits among members		<u>(2)</u>	<u>-</u>
Result for the financial year		<u>-</u>	<u>-</u>

All activities derive from continuing operations.

There are no recognised gains or losses other than the result for the current year and the preceding period, and consequently a separate statement of comprehensive income has not been presented.

BALANCE SHEET

30 SEPTEMBER 2025

	Note	2025 £000	2025 £000	2024 £000	2024 £000
ASSETS EMPLOYED					
CURRENT ASSETS					
Debtors falling due within one year	7	483,511		-	
Cash at bank	9	19,294		-	
			502,805		-
			502,805		-
FINANCED BY					
LOANS AND OTHER DEBTS DUE TO MEMBERS WITHIN ONE YEAR					
Members' capital classified as a liability		-		-	
Other amounts		-		-	
			-		-
CREDITORS					
Amounts falling due within one year	10	2,805		-	
Amounts falling due after more than one year	10	500,000		-	
			502,805		-
			502,805		-
TOTAL MEMBERS' INTERESTS					
Amounts due from members			(483,511)		-
Loans and other debts due to members			502,805		-
			19,294		-

These Financial Statements were approved by the Members on 13 February 2026.

Signed on behalf of the Members



P H Whitaker

as director of Paragon Covered Bonds Finance Limited

Member of Paragon Covered Bonds LLP

STATEMENT OF MOVEMENTS IN MEMBERS' INTERESTS

YEAR ENDED 30 SEPTEMBER 2025

	Reserves	Loans due to members	Total
	£000	£000	£000
Loans due from members	-	-	-
Loans and other debts due to members	-	-	-
Members' interests as at 1 October 2024	-	-	-
Profit for the year available for division among members	2	-	2
Loans due from members	-	(483,513)	(483,513)
Loans and other debts due to members	-	502,805	502,805
Repaid to members	(2)	2	-
Members' interests as at 30 September 2025	-	19,294	19,294

STATEMENT OF MOVEMENTS IN MEMBERS' INTERESTS

PERIOD ENDED 30 SEPTEMBER 2024

	Reserves	Loans due to members	Total
	£000	£000	£000
Loans due from members	-	-	-
Loans and other debts due to members	-	-	-
Members' interests as at 19 January 2024	-	-	-
Result for the year available for division among members	-	-	-
Loans due from members	-	-	-
Loans and other debts due to members	-	-	-
Repaid to members	-	-	-
Members' interests as at 30 September 2024	-	-	-

NOTES TO THE ACCOUNTS

YEAR ENDED 30 SEPTEMBER 2025

1. GENERAL INFORMATION

Paragon Covered Bonds LLP ('the Partnership') is a limited liability partnership domiciled in the United Kingdom and incorporated in England and Wales under the Limited Liability Partnerships Act 2000 with registered number OC450708. The address of the registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Partnership's operations and its principal activities are set out in the Members' Report.

The Partnership is a special purpose vehicle controlled by Paragon Bank Plc ("the Bank"), one of the two designated members. The second designated member is Paragon Covered Bonds Finance Limited ('PCBF'). The Bank is a subsidiary undertaking of Paragon Banking Group Plc ("the Group").

The operations of the Partnership are conducted in accordance with the requirements of the Paragon Bank PLC Covered Bond Programme Prospectus, the Limited Liability Partnership Deed, the Paragon Mortgage Sale Agreement ('MSA'), all dated 24 February 2025, and related documents (together the 'Programme Documents'). These documents may be inspected on the Group's corporate website at www.paragonbankinggroup.co.uk.

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

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

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

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2025

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

2. INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable is analysed as follows.

	2025 £000	2024 £000
Interest income on deemed loan	14,076	-
Bank interest received	526	-
	<u>14,602</u>	<u>-</u>

Interest receivable arises from financial assets held at amortised cost.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2025 £000	2024 £000
Interest expense on term loan	13,571	-
	<u>13,571</u>	<u>-</u>

All interest payable on financial liabilities relates to financial liabilities held at amortised cost.

4. OPERATING EXPENSES

	2025 £000	2024 £000
Administrative expenses	1,029	-
	<u>1,029</u>	<u>-</u>

The Partnership had no employees during the current year and preceding period. None of the members received any emoluments from the Partnership in the current or previous period. The administration charge represents fees charged by Paragon Finance PLC in connection with its provision of administration services to the Partnership.

5. OPERATING PROFIT, BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION MEMBERS' REMUNERATION AND PROFIT SHARE

The Partnership's audit fee of £36,000 (2024: £nil) has been borne by the Bank.

Non audit fees provided to the Group are disclosed in the accounts of the ultimate parent company. No non audit services have been provided to the Partnership.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2025

6. TAXATION

Under applicable UK tax legislation, the Partnership is treated as tax transparent. The Partnership is not therefore separately taxable, with income of the Partnership assessed to tax in the hands of the individual members, as appropriate. Therefore, no income tax balances are presented in these accounts.

7. DEBTORS

	2025 £000	2024 £000
Amounts falling due within one year:		
Deemed loan to the Originator	483,506	-
Prepayments and accrued income	5	-
	<u>483,511</u>	<u>-</u>

The deemed loan to the Originator, Paragon Bank PLC, results from the accounting treatment applied to legal purchases of mortgages by the Partnership under a Mortgage Sale Agreement ('MSA') dated 11 March 2025. These transfers fail to meet the conditions set out in IFRS 9 to be derecognised by the Originator, as described in note 17, and the deemed loan represents the beneficial interest of the Partnership in these mortgages (the 'mortgage portfolio') and related assets. The loan is currently expected to be repaid on the final maturity date of the term loan (note 10) but may be extended if further term loans are received in future.

No provision for expected credit losses has been recognised, (see note 16 'Impairment') and the entire deemed loan is in IFRS 9 Stage 1.

The amount of the deemed loan reported above is reduced by the amount of redemption cash and cash reserves forming part of the security assets and held in the Partnerships bank accounts. The amount of such cash at 30 September 2025 was £14.9m (2024 £nil).

The mortgage portfolio consists of buy-to-let mortgage loans secured on residential property in the United Kingdom. Mortgages in the portfolio have to fulfil certain criteria. If they cease to do so, they may be removed from the portfolio, and the portfolio may be replenished from time to time. The Partnership accounts for principal and interest cash flows from the mortgage portfolio as relating to the deemed loan only to the extent that it is entitled to retain such flows

The total net current value of the mortgage portfolio, which represents the amount at which the portfolio would have been accounted for had the derecognition criteria referred to above had been met, and the value of the beneficial interest of the Partnership are set out below. The excess value represents overcollateralisation.

	2025 £000	2024 £000
Beneficial interest in mortgages:		
Deemed loan	483,506	-
Off Balance Sheet collateral	408,114	-
	<u>891,620</u>	<u>-</u>

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2025

8. USE OF DERIVATIVES

The Partnership holds interest rate swap agreements with the Bank to hedge interest rate risk associated with its beneficial interest in the Mortgage Portfolio. This risk arises due to the fixed interest rate nature of the loans in the Mortgage Portfolio and the SONIA-linked floating rate basis on which interest on the term loan is payable. Cash flows associated with the swap are considered to form part of the deemed loan and accounted for as such.

Under these agreements the Partnership makes payments based on the rates of interest receivable on loans in the Mortgage Portfolio and receives payments based on the rates set out below.

Rate received	Rate payable	Outstanding notional principal	
		2025 £000	2024 £000
5.26% fixed	SONIA + 50bps	562,813	-

9. CASH AT BANK

At 30 September 2025, the amount of restricted cash held within the Partnership was £19,294,000 (2024: £nil). Cash withdrawals are restricted by the detailed priority of payments set out in the transaction documents.

10. CREDITORS

	2025 £000	2024 £000
Amounts falling due within one year:		
Accrued interest on term loan	563	-
Accruals and deferred income	2,242	-
	<u>2,805</u>	<u>-</u>
	2025 £000	2024 £000
Amounts falling due after more than one year:		
Term loan	500,000	-
	<u>500,000</u>	<u>-</u>

The term loan is due from the Bank, a member of the Partnership and is equivalent to the amount issued by the Bank under its covered bond programme. The term loan will not be repaid until after the repayment of the corresponding covered bonds by the Bank, and payments made in respect of the term loans are governed by the transaction documents relating to the covered bond programme.

NOTES TO THE ACCOUNTS - ANALYSIS

YEAR ENDED 30 SEPTEMBER 2025

10. CREDITORS (CONTINUED)

Amounts owed by the Partnership to the Bank are subordinated to any amounts owed by the Partnership under the Covered Bond Guarantee (Note 11). The principal features of the term loan, which is denominated in pounds sterling, are set out below.

Related covered bond issue	Due Date	Interest chargeable	2025 £000	2024 £000
2025-1	Mar 2028	SONIA plus 0.60%	500,000	-
			<u>500,000</u>	<u>-</u>

11. COVERED BAND GUARANTEE

The covered bonds issued by the Bank are unconditionally guaranteed by the Partnership. Under the terms of the programme documentation, the Partnership has provided a guarantee as to the payment of interest and principal under the covered bonds. The obligations of the Partnership under this guarantee constitute direct obligations of the Partnership, secured against the Partnership assets, and recourse to the LLP is limited to such assets.

12. RELATED PARTY TRANSACTIONS

The related parties of the Partnership are its members and other entities controlled by Paragon Banking Group PLC, the ultimate controlling party of the Partnership.

The Partnership has provided a deemed loan to the Bank, the Originator representing a beneficial interest in the loans in the mortgage portfolio, which are accounted for as assets of the Originator. This arrangement is described in note 7, with the income derived from it shown in note 2. The Bank is also the counter-party to the interest rate swap arrangements described in note 8.

The Partnership has also received a term loan from the Bank, as described in note 10. Interest payable on that loan is shown in note 3.

In addition, the Partnership paid cash management and mortgage servicing fees to Paragon Finance PLC during the year in connection with the provision of services defined under the Programme Documentation. These fees amounted to £1,029,000 (2024: £nil).

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT

YEAR ENDED 30 SEPTEMBER 2025

The note below describes the processes and measurements which the Partnership use to manage its capital position and its exposure to financial risks including credit, liquidity, interest rate and foreign exchange risk.

13. CAPITAL

Under the terms of the Programme Documents, for legal purposes the Bank is treated as having made a capital contribution to the Partnership in an amount equal to the difference between the current balance of mortgage loans sold to the Partnership at the transfer date and the cash payment made by the Partnership for the loans, relevant security and related balances on that transfer date (the overcollateralisation).

For accounting purposes this capital contribution is not recorded, as only the Deemed Loan balance is recognised as an asset, rather than the full value of the Mortgage Portfolio, and hence no excess arises.

The Bank, as a member of the Partnership, may make further cash capital contributions from time to time. These cash contributions are included as part of the Deemed Loan and no accounting entry is necessary.

Capital distributions may only be made in accordance with the Partnership Deed where sufficient principal receipts are available and higher priority payments in accordance with the transaction documents have been made. However, unless such transfers represent a change in the beneficial interest of the Partnership in the assets, no accounting entry for capital arises.

The Programme Documents require that a fixed amount of member profit is generated in the Partnership for each year. This profit, set by the Programme Documents at £3,600 per annum is automatically divided between the Bank and PCBF, the Liquidation Member, with PCBF receiving £1 and the Bank the remainder. This profit is added to the capital accounts of the respective members.

14. FINANCIAL RISK MANAGEMENT

The Partnership's exposure to financial risks and the way in which such risks are managed was largely determined at commencement of its operations and is set out in the Programme Documents. The Partnership's activities expose it to a variety of financial risks. These are credit risk, liquidity risk and interest rate risk. The Partnerships' Management Committee monitors the Partnership's financial risks and also follows the risk management policies of the Group as the Partnership is controlled by the Group and is consolidated into the financial statements of the Group. These policies include specific guidelines on the management of interest rate and credit risks and advise on the use of financial instruments to manage them. The Partnership's Management Committee has responsibility for ensuring effective risk management and control.

Credit risk

Credit risk is the risk that counterparties to the Partnerships financial asset balances do not meet their obligations as they fall due. Credit risk in the Partnership arises from its deemed loan balance and its cash holdings.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT

YEAR ENDED 30 SEPTEMBER 2025

14. FINANCIAL RISK MANAGEMENT (CONTINUED)**Credit risk (continued)***Deemed Loan*

The Deemed Loan represents a preferential interest in the Mortgage Portfolio. The mortgages in the portfolio are beneficially owned by the Partnership (legal title to the mortgages is currently with Paragon Bank PLC) and therefore the entire value of the portfolio is available to satisfy the Deemed Loan if required.

The level of overcollateralisation of the portfolio (shown in note 7) provides a significant mitigant to credit risk and this is enhanced by requirements set out in the Programme Documents. These include a minimum collateralisation level, relative to the term loan amount, which must be maintained on an ongoing basis, and credit quality conditions which loans in the Mortgage Portfolio must meet in order to count towards that minimum coverage level. To ensure these conditions are met on an ongoing basis a monthly asset coverage test is mandated.

Loans failing to meet the criteria for inclusion may be repurchased by the Bank, which will also make further sales of appropriate assets to the Partnership from time to time to replace loans which have redeemed or repaid.

During the year the quality requirements set out in the Programme Documents were met from the advance date of the initial term loan to the year end date.

The Mortgage Portfolio, as a whole, comprises buy-to-let mortgage loans secured over residential property in the UK. At 30 September 2025 76.0% of loans in the portfolio had an indexed loan-to-value ('LTV') ratio of 70% or less (2024: N/A), with the weighted average LTV of 60.6% (2024: N/A). LTV for each account is calculated by comparing the current balance on the account to the most recent valuation of the mortgaged property, indexed as appropriate.

Cash

In order to control credit risk relating to institutional counterparties, the Board of the ultimate controlling company sets group-wide policies, in relation to which counterparties the group entities can deal with, establishing credit limits and monitoring compliance.

The Partnership assesses all counterparties for credit risk before placing cash deposits with them. Under the Programme Documents it may only place cash with institutions whose short term credit rating is equal to, or better than, A-1 by Standard and Poors, P-1 by Moodys or F1 by Fitch. Credit ratings for the Partnership's cash balances are published from time to time as part of the Covered Bond Investor Report.

Liquidity risk

This is the risk that the Partnership's cash and committed facilities may be insufficient to meet its debts as they fall due. The ability of the Partnership to pay interest and principal on the loans to the related party is dependent upon the Partnership receiving sufficient cash flow from the deemed loan. In addition to considering performance of the underlying loans and advances at amortised cost and the reserve ledger restricted cash, cash flow measurements and projections for the next month are also reviewed, as these are key periods for liquidity management. Sources of liquidity are regularly reviewed. The Partnership's third-party expenses are borne by the Bank and therefore generates no significant liquidity risk.

NOTES TO THE ACCOUNTS – CAPITAL AND FINANCIAL RISK MANAGEMENT

YEAR ENDED 30 SEPTEMBER 2025

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

Interest rate risk is the possibility that changes in interest rates will result in higher financing costs and/or reduced income from the Partnership's interest-bearing financial assets and liabilities.

The underlying mortgage pool comprises loans which are subject to variable rates of interest set by the Bank based on general interest rates and competitive considerations, loans which track the Bank of England base rate and loans which are subject to fixed rates of interest. To mitigate the changes in interest rates that may result in the interest cash flows from the mortgage pool being insufficient to meet the payments under the term loans, the Partnership has entered into swaps with the Bank. The swaps substantially mitigate the sensitivity to movements in interest rates on fixed rate mortgages.

The effect of interest rate movements has no bearing on the results of the Partnership due to the use of derivative contracts and the provisions of the programme documents.

These swaps, which are described in note 8 are accounted for as part of the Deemed Loan rather than being separately recognised. This means that the accounts of the Partnership are not subject to fair value movements and no sensitivity analysis is therefore presented.

Currency risk

All of the Partnership's assets and liabilities are denominated in pounds sterling. Therefore, it has no exposure to foreign currency exchange rate risk.

NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
YEAR ENDED 30 SEPTEMBER 2025

The notes set out below describe the accounting basis on which the Partnership prepares its accounts, the particular accounting policies adopted by the Partnership and the principal judgements and estimates which were required in the preparation of the financial statements.

They also include other information describing how the accounts have been prepared required by legislation and accounting standards.

15. BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with applicable United Kingdom ('UK') accounting standards and in accordance with The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 8. Disclosures have been made in accordance with Financial Reporting Standard 101 – 'Reduced Disclosure Framework' ('FRS 101').

As permitted by FRS 100 – 'Application of Financial Reporting Requirements' ('FRS 100') the Partnership has applied the measurement and recognition requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards) ('UK-IAS') but makes amendments where necessary in order to comply with The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and has set out below where advantage of disclosure exemptions provided by FRS 101 has been taken.

The particular accounting policies adopted have been set out in note 16 and the critical accounting judgements which have been regarded in preparing these financial statements are described in note 17.

Adoption of new and revised reporting standards

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

Standards not yet adopted

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

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

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

Disclosures

In preparing these financial statements the Partnership has taken advantage of the exemptions from disclosure provided by FRS 101 in respect of:

- The requirement to produce a cash flow statement and related notes
- Disclosures in respect of capital management
- Disclosures in respect of key management personnel
- Disclosures of transactions with a management entity which provides key management personnel services to the Partnership

**NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
YEAR ENDED 30 SEPTEMBER 2025**

15. BASIS OF PREPARATION (CONTINUED)

Disclosures (continued)

As the consolidated financial statements of Paragon Banking Group PLC, the ultimate parent undertaking of the Partnership, include equivalent disclosures the Partnership has also taken advantage of these further exemptions provided by FRS 101:

- Certain disclosures required by IFRS 13 – ‘Fair Value Measurement’
- Certain disclosures required by IFRS 7 – ‘Financial Instruments Disclosures’

The Partnership presently intends to continue to apply these exemptions in future periods.

16. ACCOUNTING POLICIES

The particular policies applied by the Partnership in preparing these financial statements in accordance with the measurements and recognition requirements of UK-IAS are described below.

Accounting convention

The financial statements have been prepared under the historical cost convention.

Going concern

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

The designated members have adopted this basis following a going concern assessment the Partnership covering a period of at least twelve months following the date of approval of these financial statements. Details of this assessment are set out in note 18.

Cash at bank

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

Deemed loan

The Deemed Loan payable by the Bank as Originator is accounted for on the amortised cost basis, with income recognised on the expected interest rate (‘EIR’) basis.

The Deemed Loan was initially recognised at a value which represented the initial consideration paid to the Bank to acquire its beneficial interest in the Mortgage Portfolio. The Deemed Loan may be increased or decreased where the value of the beneficial interest is changed, as the result of the issue of further Term Loans or the repayment of the existing Term Loan.

The Partnership recognises principal and interest cash flows from the Mortgage Portfolio only to the extent it is entitled to retain such cash flows under the Programme Documents. After all payments required under the transaction documents have been made, all excess cash is returned to the Bank.

The cash flows recognised as revenue arising from the Deemed Loan are limited to that proportion of the revenue cash flows on the Mortgage Portfolio that the Partnership is entitled to retain in order to make payments under the Programme Documents. Revenue receipts in excess of these amounts are not recognised by the Partnership as it has no entitlement to these cash flows and must remit them to the Bank. This equates to recognition of interest income on the Deemed Loan on an EIR basis, given the relationship of these flows to its carrying value.

**NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
YEAR ENDED 30 SEPTEMBER 2025**

16. ACCOUNTING POLICIES (CONTINUED)

Deemed loan (continued)

The beneficial interest represented by the Deemed Loan also includes rights to cash flows generated by the interest rate swaps taken out to mitigate the potential impact of interest rate movements on the loans in the Mortgage Portfolio. This entitlement does not, however, alter total amount of the beneficial interests to which the LLP is entitled. These swaps, therefore, are accounted for as part of the Deemed Loan, rather than being recognised separately on the balance sheet or in profit or loss.

Impairment

The carrying values of financial assets are reduced, where necessary, by an impairment provision based on their ECL, determined in accordance with IFRS 9. These estimates are reviewed throughout the year and at each balance sheet date.

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

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

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

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

For the Deemed Loan this assessment includes an assessment of the probability of the cash flows generated by the Mortgage Portfolio being insufficient to support a valuation of that portfolio at least equal to the carrying value of the Deemed Loan. Where the Mortgage Portfolio is sufficiently overcollateralised, including under stressed conditions, no SICR will be identified and no ECL provision will be required.

Balances shown in respect of the Mortgage Portfolio are net of expected loss provisions calculated on an IFRS 9 basis.

Financial liabilities

Financial liabilities are initially recognised at fair value less transaction costs and are subsequently valued at amortised cost, using the effective interest method. Financial liabilities are derecognised when extinguished.

Revenue

The revenue of the Partnership comprises interest receivable and similar charges. The accounting policy for the recognition of interest receivable is described in the accounting policy for the deemed loan.

**NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
YEAR ENDED 30 SEPTEMBER 2025**

17. CRITICAL ACCOUNTING JUDGEMENTS

The most significant judgements which the members have made in applying the accounting policies set out in note 16 relate to:

a) Non-recognition of mortgage assets

The Programme Documents include the MSA, under which legal title to the loans in the Mortgage Portfolio passes to the partnership. However, under accounting standards a financial asset may only be recognised by a transferee if the transferor, in this case, the Bank, has relinquished substantially all benefits and risks associated with the asset.

The Members have assessed the basis on which the loans were transferred, considering the Programme Documents taken as a whole. This assessment has identified a number of features which indicate that the Partnership has assumed neither the full risks nor the full benefits related to the Mortgage Portfolio. These include mechanisms which limit the Partnership's interest in the cash flows generated by the Mortgage Portfolio to those required to make payments on the term loan and other related payments, and the obligation on the Bank to effectively replace in the Mortgage Portfolio any loan which ceases to perform or no longer meets the criteria set out in the Programme Documents.

Based on this analysis, the Partnership has not recognised the loans in the Mortgage Portfolio in its balance sheet, but has instead recognised a 'Deemed Loan', representing its interest in the Mortgage Portfolio under the terms of the Programme Documents. This Deemed Loan also includes the Partnership's interest in the interest rate swaps described in note 7 as this effectively conveys no further benefits to the Partnership than those already available under the Deemed Loan.

b) Classification of financial assets

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

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

Financial assets are classified as held at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss. For an asset to be held at amortised cost, it must be held under a 'Held to Collect' business model and the cash flows received from it must comprise solely payments of principal and interest ('SPPI').

The members have considered the nature of the Deemed Loan in light of these requirements. The Partnership's business model involves the receipt of cash flows from the Deemed Loan over time to satisfy its obligations under the Programme Documents. The Deemed Loan cannot be disposed of in the normal course of business and the Partnership does not benefit from any variation in its value in normal conditions. The business model is therefore considered to be of the 'Held to Collect' type described in IFRS 9.

The cash flows attributable to the Partnership from the Deemed Loan are substantially those it requires to meet its obligations under the Term Loan. The obligations under the Term Loan comprise principal and interest and therefore the cash flows derived from the Deemed Loan can also be characterised as principal and interest and the SPPI test is met.

The Deemed Loan is therefore accounted for on the amortised cost basis.

**NOTES TO THE ACCOUNTS – BASIS OF PREPARATION
YEAR ENDED 30 SEPTEMBER 2025**

18. GOING CONCERN

Accounting standards require the designated members to assess the Partnership'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 Reporting on Solvency and Liquidity Risks' published by the Financial Reporting Council in April 2016.

The operations of the Partnership are limited by the terms of the Programme Documentation, which it has operated in accordance with throughout the year, and the market risks related to the financial assets and liabilities of the Partnership have been economically hedged. In addition, the overcollateralisation of the Partnership's liabilities provided by the Mortgage Portfolio significantly mitigates liquidity risk.

The Partnership's principal liabilities are the term loans payable to the Bank and its contingent obligation under the guarantee described in note 11. The Partnership's interests in the Mortgage Portfolio and related assets would be expected to generate sufficient cash flows to satisfy these obligations, given the level of overcollateralisation and the quality requirements included in the Programme Documents

The designated members have assessed the current and forecast financial performance of the Partnership in conjunction with their analysis of the risks it faces and the requirements of the Programme Documentation. Based on this analysis, the designated members have concluded that they have a reasonable expectation that the Partnership will continue in operational existence and meet its liabilities as they fall due for a period of at least twelve months following the date of approval of the Partnership's accounts. They have therefore adopted the going concern basis in preparing the financial statements.

19. ULTIMATE PARENT COMPANY

The immediate parent undertaking of the Partnership is Paragon Bank PLC and the ultimate parent undertaking and controlling party of the Partnership is Paragon Banking Group PLC, a company registered in England and Wales.

This is the largest and smallest group of which the Partnership is a member and for which consolidated financial statements are drawn up. Copies of the financial statements of Paragon Banking Group PLC are available from that company's registered office at 51 Homer Road, Solihull, West Midlands, B91 3QJ.