B. Corporate governance

How the Group is run and how risk is managed

B1. Chair's statement on corporate governance

> **We recognise that a robust governance structure and effective risk management framework are integral to delivering sustainable growth and shareholder returns...**
>
> **Fiona Clutterbuck,** Chair of the Board

Dear Shareholder

I am pleased to introduce this section of the annual report, which describes the Group's governance processes and how the Board and its Committees addressed the important issues facing the Group during the year.

The Group is committed to strong corporate governance as a foundation for strategic success and takes its responsibilities under the UK Corporate Governance Code (the 'Code') very seriously. As a board we recognise that a robust governance structure and effective risk management framework are integral to delivering sustainable growth and shareholder returns.

The Board noted with interest the BEIS proposals on governance, auditing and reporting published in the year. Final recommendations are due to be published in the coming year and the Board expects to spend considerable time considering these. It is my hope that the approach adopted by BEIS builds on the best aspects of the current UK approach to governance, developed over the thirty years since the Cadbury Committee first met.

The Group enhanced the governance framework in the year, with the establishment of a Sustainability Committee, which reports to the Executive Committee and is able to form a holistic view of sustainability issues across the Group's activities. An informal Non-Executive Technology and Change Group was also created to provide direct insight for the independent directors on these areas.

Stakeholder engagement

The Group has continued to develop its shareholder engagement programmes during the year, despite our inability to engage face-to-face, as a consequence of Covid.

The Group's People Forum continues to meet regularly and provides the Board with insight into the views of the employees.

The People Director updates the Nomination Committee on the outcome of these meetings and has a comprehensive action plan to ensure that the key themes captured are fed back into the Board's decision-making process and that these decisions are subsequently reported back to employees, through the Forum and through wider communications.

I have been pleased to attend meetings of the Forum, as have some of the Group's non-executive directors. It was very useful for us to receive direct feedback from employees on a number of significant areas, including remuneration, employment conditions, the Group's response to Covid, and the hybrid working arrangements now being adopted.

We also launched our first in-depth employee survey since the onset of Covid during the year. This, pleasingly, demonstrated a high level of engagement, with employees expressing positive views about the Group's culture and the quality of the internal communications.

I, and my Board colleagues, have had the opportunity of meeting with the representatives of various regulators in the year. We value these interactions, and take the views of our regulators very seriously in considering policy and strategy.

During the latter part of the year I met with representatives of shareholders and proxy advisers, together with Hugo Tudor, the Senior Independent Director and Chair of the Remuneration Committee. These discussions covered the Group's approach to executive remuneration and also covered other governance and broader sustainability issues. I find these interactions to be both constructive and useful, and would urge all of our principal shareholders to participate, if invited.

Purpose

During the year the Board reviewed and confirmed the Group's purpose: "To support the ambitions of the people and businesses of the UK by delivering specialist financial services". This was followed up with a campaign intended to emphasise to employees and business partners the centrality of the purpose and the Group's values to its culture and strategy.

Diversity and Inclusion

The promotion of the Group's diversity and inclusion agenda has been a particular focus of my tenure as Chair. I was pleased to see the impact the new EDI Network had in its first year, and this bodes well for future progress in this area.

I was also delighted that the Group had met its Hampton-Alexander ('HA') targets for board and senior management diversity, and its wider diversity targets under the Women in Finance initiative, set in 2016. I look forward to the next phase of both projects.

Whilst I am proud of this progress, we will maintain our vigilance to ensure that momentum is maintained and will bear this in mind as the Board develops. In particular we are aware of the value of ethnic and other diversities on boards and of increased expectations around the Parker review, and are considering how best to build these into our succession planning.

Board effectiveness

The Board conducted an internal effectiveness review during the year and continued to address development points that arose from past effectiveness internal reviews. Planning for the next triennial, externally facilitated, review of board and committee effectiveness, due in 2022, is currently in progress.

Board changes

Having completed nine years on the Board in September 2021, I will be stepping down as Chair once a suitable candidate is appointed to replace me, and after an appropriate handover period. The Board and Nomination Committee have considered my reappointment beyond nine years and agreed that, in the interests of succession planning, and to ensure a smooth handover to my successor, my appointment should be extended to September 2022. The search process for the new Chair is well under way and we will update stakeholders once an appointment is made.

Peter Hill was appointed to the Board on 27 October 2020, becoming Chair of the Risk Committee on 31 December 2021 when the previous Committee Chair, Finlay Williamson, stepped down from the Board. Peter was previously CEO of Leeds Building Society from 2011 until his retirement in 2019 and brings with him a wealth of experience in financial services, gained during his executive and non-executive career, which will be valuable to the Group going forward.

The Group's next AGM will be held on 2 March 2022 in London, and we look forward to welcoming shareholders, hopefully without any of the Covid-related restrictions which impacted on the 2021 AGM. However, if any such restrictions are required, shareholders will be updated on revised arrangements through the Group's website.

Fiona Clutterbuck
Chair of the Board
7 December 2021

B2. Corporate Governance Statement

The Board is committed to the principles of corporate governance contained in the UK Corporate Governance Code issued by the FRC in July 2018 (the 'Code'). Throughout the year ended 30 September 2021, the Company complied with the principles and provisions of the Code.

During the year under review, the Company adopted the 'comply and explain' approach under Provision 19 of the Code to extend the Chair of the Board's tenure past nine years for succession planning purposes and to ensure the appointment of a suitable replacement Chair, as set out below.

Fiona Clutterbuck's nine-year term on the Board came to an end in September 2021 since she was first appointed in 2012 and she has indicated her intention to step down as Chair once a suitable candidate is appointed, and after an appropriate handover period. The Board and Nomination Committee considered Fiona's position, including her other commitments, and agreed that, in the interests of succession planning and to ensure a smooth transition of duties to Fiona's successor, her appointment be extended beyond nine years to September 2022. Fiona will therefore stand for re-election at the AGM in March 2022. The Board believes this limited extension to be in the interests of the Company's shareholders and the Group's other stakeholders. Fiona will step down once a new Chair has been appointed, and an appropriate handover has taken place. The search process, which is being led by Hugo Tudor, the Senior Independent Director, is well underway and the outcome will be communicated to shareholders in due course. This is discussed further in the report of the Nomination Committee in Section B5.

The table below signposts the relevant sections of this report, which provide supporting information about how the Code Principles have been applied.

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

Section 2: Division of Responsibilities	Section
F. The Chair is objective and leads the Board effectively, facilitating constructive relations and effective contribution from non-executive directors.	B4.1
G. The Board includes an appropriate combination of executive and non-executive directors, with a clear division of responsibilities.	B4.1
H. Non-executive directors have sufficient time to meet their board responsibilities. They provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	B4.1
I. The Board, supported by the Company Secretary, has the policies, processes, information, time and resources required to function effectively and efficiently.	B4.1

Section 3: Composition, Succession and Evaluation	Section
J. Appointments to the Board are subject to a formal, rigorous and transparent procedure, and an effective succession plan is in place for Board and senior management. Appointments and succession plans are based on merit and objective criteria and promote diversity.	B5
K. There is an appropriate mix of skills, experience and knowledge. Tenure and membership of the Board and its committees are regularly reviewed.	B4.4
L. The annual board evaluation provides an opportunity for the directors to consider their collective and individual effectiveness and decide where there are areas for improvement.	B4.4

Section 4: Audit, Risk and Internal Control	Section
M. The policies and procedures, established by the Board, ensure the independence and effectiveness of internal and external audit functions. The Board has satisfied itself of the integrity of financial and narrative statements.	B6
N. The Board presents a fair, balanced and understandable assessment of the Company's position and prospects.	B6
O. The Board has established procedures to manage risk, oversee the internal control framework and determine the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.	B8

Section 5: Remuneration	Section
P. Remuneration policies and practices support strategy and promote long-term sustainable success. Executive remuneration is aligned to the Company's purpose, values and successful delivery of long-term strategy.	B7
Q. A formal and transparent procedure has been established to develop policy and determine director and senior management remuneration. No director is involved in deciding their own remuneration outcome.	B7
R. The directors exercise independent judgement and discretion over remuneration outcomes, taking account of company and individual performance and wider circumstances.	B7

B3. Board of Directors and Senior Management

B3.1 The Board of Directors

Members of the Board of Directors at the date of approval of the annual report are set out below.

*All directors have broad knowledge of all areas of the Group's business, but the 'areas of expertise' highlight specific areas in relation to an individual's contribution to the Group's long-term sustainable success.

†In line with Code provision 10, Fiona's nine-year term was extended to September 2022, following Nomination Committee and Board deliberation during the year, to facilitate effective succession planning.

Finlay W Williamson stepped down from the Board on 31 December 2020.

1. Fiona J Clutterbuck

Chair of the Board (Age 63)

Appointed to the Board as an independent non-executive director in 2012 and became Chair of the Board in May 2018 †

Experience

Fiona Clutterbuck has many years of corporate finance experience at leading UK and international investment banks, specialising in financial institutions.

During her career she has held the positions of Head of Strategy, Corporate Development and Communications at Phoenix Group, Managing Director and Head of Financial Institutions Advisory at ABN AMRO Investment Bank, Managing Director and Global Co-Head of Financial Institutions Group at HSBC Investment Bank and was a director at Hill Samuel Bank Limited.

Specific areas of expertise*

- Long term understanding of the Group, its markets and its people
- Strong and broad listed plc experience
- Strategic analysis skills
- Detailed knowledge of the executive remuneration market

Committee membership

Chair: Nomination Committee

Member: Risk and Compliance and Remuneration Committees

Current external appointments

Non-executive director of Sampo PLC (a Finnish listed financial services company) and a member of its audit committee

Non-executive director and interim chair of M&G plc. In accordance with Code provision 15, the Board approved Fiona's appointment as interim chair of M&G plc in January 2021

Non-executive director of Investment Funds Direct Limited

2. Nigel S Terrington

Chief Executive (Age 61)

Appointed to the Board as Treasury Director in 1990, and became Finance Director in 1992 and CEO in 1995

Experience

Nigel Terrington's early career began in investment banking, which included working for UBS where he ran its Financial Institutions Group. He joined the Group in 1987, becoming Treasurer shortly thereafter, before being appointed as Finance Director and then Chief Executive.

He is a member of the Board of UK Finance and is the Chairman of UK Finance's Specialist Bank Advisory Committee. Previously he was the Chairman of the Council of Mortgage Lenders ('CML'), Chairman of the Intermediary Mortgage Lenders Association ('IMLA'), Chairman of the FLA Consumer Finance Division and a Board member of the FLA.

Nigel is also currently a member of HM Treasury's Home Finance Forum and the Bank of England's Residential Property Forum.

He is an associate of the Chartered Institute of Bankers and in 2017 received an Honorary Doctorate from Birmingham City University for services to the finance industry.

Specific areas of expertise*

Overall, Nigel has expertise gained from long term, through-the-cycle, strategic and detailed understanding of the Group, its markets, its operations and its people. He saw the Group through both the 1992 and 2007 financial crises and has led the diversification of the Group from a monoline buy-to-let lender to its current broadly-based specialist banking group.

Committee membership

Member: Disclosure Committee

Current external appointments:

Board member of UK Finance

Chairman of UK Finance's Specialist Banks Advisory Committee

Member of HM Treasury's Home Finance Forum

Member of Bank of England's Residential Property Forum

3. Richard J Woodman

Chief Financial Officer (Age 56)

Appointed to the Board as Director of Corporate Development in 2012 and became CFO in June 2014

Experience

Richard Woodman joined the Group in 1989 and has held various senior strategic and financial roles, including Director of Business Analysis and Planning and Managing Director of Idem Capital.

He has taken a lead role in the Group's strategic development and, in particular, in the loan portfolio acquisition programme through Idem Capital and the Group's Mergers and Acquisitions ('M&A') programme.

He is a member of the Chartered Institute of Management Accountants.

Specific areas of expertise*

Broadly, Richard has expertise gained from long term, through-the-cycle, knowledge and understanding of the Group, its markets and its operations, in particular its financial management controls, liquidity, stress testing and capital management.

Committee membership

Member: Disclosure Committee

Current external appointments:

Director of Woodman Portfolio Holdings Limited and Rose Wine Limited.

4. Hugo R Tudor

Non-executive director (Age 58)

Appointed in 2014 – seven years served.

Became Senior Independent Director in July 2020

Experience

Hugo Tudor spent 26 years in the fund management industry, originally with Schroders and most recently with BlackRock, covering a wide range of UK equities.

He is a Chartered Financial Analyst and a Chartered Accountant.

Specific areas of expertise*

- Detailed knowledge of the investor perspective
- A strong understanding of the executive remuneration market

Committee membership

Chair: Remuneration Committee

Member: Audit, Nomination and Risk and Compliance Committees

Current external appointments

Director of Damus Capital Limited

Director of Porthcothan Property Limited

Director of Vitec Global Limited, Vitec Air Systems Limited and Vitec Aspida Limited

5. Peter A Hill

Non-executive director (Age 60)

Appointed in December 2020 – one year served

Experience

Peter Hill's career in financial services has spanned over 40 years, including eight years as CEO of Leeds Building Society between 2011 and 2019, where he previously held the role of Operations Director.

He was chair of the CML for three years and was a member of the Board of UK Finance.

Peter is a fellow of the Royal Society of Arts and an associate of the Chartered Institute of Banking.

Specific areas of expertise*

- Specialist retail banking and mortgage lending expertise
- Detailed knowledge of the financial services sector

Committee membership

Chair: Risk and Compliance Committee

Member: Audit Committee

Current external appointments

Non-executive director of Pure Retirement Group Limited and Pure Retirement Limited

Chair of Mortgage Brain Holdings Limited

Director of Leeds Rugby Foundation

6. Alison C M Morris

Non-executive director (Age 62)

Appointed in 2020 – two years served

Experience

Alison is a chartered accountant and was a partner in PwC's financial services audit practice until the end of 2019.

She joined PwC in 1982 and spent her career with the organisation in a range of internal and external audit roles across asset and wealth management, as well as banking and capital markets.

She has led audit projects for a range of banking clients, as well as other companies across the FTSE 100 and FTSE 250, and has held a number of leadership roles within PwC including sitting on the executive management team which led their audit practice.

Specific areas of expertise*

- Recent and relevant experience of the financial services sector
- Detailed and specialist knowledge of accounting and auditing practice as well as of the audit market and accounting regulations

Committee membership

Chair: Audit Committee
Member: Remuneration and Risk and Compliance Committees

Current external appointments

Non-executive director of Vanquis Bank Limited, part of the Provident Financial Group PLC

Non-executive director of M&G Group Limited, M&G Investment Management Limited and M&G Alternatives Investment Management Limited, all part of the M&G plc group

7. Graeme H Yorston

Non-executive director (Age 64)

Appointed in 2017 – four years served

Experience

Graeme Yorston was Group Chief Executive of Principality Building Society, the 6th largest mutual in the UK. He has over 43 years' experience in financial services having carried out a number of senior roles in Abbey National (now Santander).

Graeme has served on the CBI Council for Wales, the Board of Business in the Community in Wales and was HRH Prince Charles, Ambassador for BITC in Wales for two years.

He was awarded Director of the Year in Wales by the Institute of Directors in 2016.

Graeme is a Fellow of The Chartered Institute of Banking, holds an MBA from Warwick Business School and was awarded an Honorary Doctorate in Business Administration by Cardiff Metropolitan University in 2017.

Specific areas of expertise*

- Strong retail banking sector knowledge and experience particularly in marketing, communications and customer service
- Detailed experience of overseeing Business Change and IT systems

Committee membership

Member: Nomination, Remuneration and Risk and Compliance Committees

Current external appointments

None

8. Barbara A Ridpath

Non-executive director (Age 65)

Appointed in 2017 – four years served

Experience

Barbara Ridpath has worked in finance for most of her career, in New York, London and Paris at the Federal Reserve Bank of New York, Standard & Poor's and JPMorgan.

She was instrumental in the development of UK mortgage securitisation in the late 1980s and went on to lead the Standard & Poor's Ratings Group in Europe, the Middle East and Africa.

Specific areas of expertise*

- Strong knowledge of the operation and implementation of operational risk management systems
- Detailed knowledge of the securitisation market

Committee membership

Member: Audit, Nomination and Risk and Compliance Committees

Current external appointments

Non-executive director of ORX in Switzerland, a trade association for operational risk professionals and a director of ORX UK Limited

Chair of the Ethical Investment Advisory Group of the Church of England

Member of the International Advisory Council of the Institute of Business Ethics ('IBE')

B3.2 Executive Committee

The members of the Group's Executive Committee are set out below, with their tenure in their current role.

Nigel Terrington
Chief Executive Officer ('CEO')
Since 1995

Richard Woodman
Chief Financial Officer ('CFO')
Since 2014

Richard Rowntree
Managing Director - Mortgages
Since 2020

Dave Newcombe
Managing Director – Commercial Lending
Since 2019

Michael Helsby
Strategic Development Director
Since 2018

Pam Rowland
Chief Operating Officer ('COO')
Since 2014

Deborah Bateman
External Relations Director
Since 2009

Peter Shorthouse
Treasury and Structured Finance Director
Since 2010

Anne Barnett
People Director
Since 2009

Marius van Niekerk
General Counsel and Company Secretary
Since 2019

Ben Whibley
Chief Risk Officer ('CRO')
Since 2019

All members sit on both the Performance Executive Committee and the Executive Risk Committee. The Internal Audit Director, Sarah Mayne, attends both meetings as an observer.

B3.3 The Board's activities in the year

Matters considered by the Board

During the year, the Board undertook a range of activities, in addition to its regular discussions of performance and strategy. These included:

- Considering the impact of Covid, Brexit, and other macro-economic uncertainties on the Group
- Reviewing the Group's cyber security processes and operational resilience
- Assessing the impact of climate change on the Group and developing its ESG strategy
- Ensuring an effective transition away from LIBOR

In addition, the Board regularly receives and reviews reports prior to its meetings covering such matters as strategy, business performance and results in each of the Group's business areas. The Board also receives updates on legal and governance matters, treasury and funding, the work of its committees and investor relations and shareholder feedback.

Other significant matters overseen by the Board are set out below by theme:

Topic	Meeting
Cyber security / operational resilience	
Training / insight session on technology strategy and cyber security, presented by in-house experts.	Oct 2020
Update on cyber security, which included an overview of the Group's Security Operations Centre, new technologies and defence mechanisms deployed, and cyber security awareness initiatives across the organisation amongst other matters.	Mar 2021
Operational resilience training, which covered e.g. the regulatory perspective thereon, the Group's operational resilience framework, and steps the Group has taken and will take to enhance it, such as scenario tests and training.	May 2021
Corporate governance	
Annual review of the Corporate Governance Policy Framework.	Feb 2021
Succession planning for the Board and Group in conjunction with the Nomination Committee	Feb 2021, Jul 2021, Sep 2021
Training on CRD V, which provided an overview of the key remuneration requirements under CRD V and the key impacts on the Group's remuneration policies and practices	Mar 2021
Consideration of the annual whistleblowing report, which provided the Board with the assurance of the integrity of the Whistleblowing Policy, independence of the process and details of disclosures and developing trends identified during the reporting period.	Mar 2021
Approval of the Modern Slavery Statement and Policy following an annual review.	Mar 2021
Annual review of the Group's purpose with confirmation that it remained relevant and was fit for purpose for the next twelve months. In addition, the Board considered the Code requirement that the Group's purpose should align with its culture when making the assessment	Apr 2021
Approval of the declaration of a final dividend of 14.4 pence per share in respect of the financial year ended 30 September 2020.	Nov 2020
Approval of the declaration of an interim dividend of 7.2 pence per share and a buy-back programme of £40.0 million of the Group's ordinary shares in accordance with the approval granted at the 2021 AGM.	Jun 2021
Business strategy	
Training / insight session that explored the outlook for the UK economy and housing market. The session was facilitated by an economic research consultancy.	Oct 2020
Approval of the corporate plan for the financial years ending 2021 to 2025. More detail on the Group's strategy can be found in section A3 and A4.	Nov 2020
A deep dive review into Commercial Lending operations was provided to the Board by the managing director of the business. This was a further opportunity for the Board to meet a key management individual beyond strategy sessions, thereby enhancing engagement with senior management.	Jan 2021
An investment bank provided a market update on the financial services sector.	Feb 2021

Topic	Meeting
Risk and regulation	
Received training on the ILAAP.	Oct 2020
Approved lending to the Group's customers under the RLS.	Mar 2021
Approved the LIBOR transition approach for buy-to-let customers.	Mar 2021
Received training on pricing and cost of funds from in-house experts.	May 2021
Approved the Group's 2021 Recovery Plan.	May 2021
Received further training on IRB, following the training received in June 2020.	July 2021
Considered and approved revisions to the Group's principal risk categories.	July 2021
The General Counsel and Company Secretary and external counsel provided the Board with a legal and regulatory training session, which covered topics such as UK MAR and directors' duties.	July 2021
ESG	
Received a presentation from members of the Group's sustainability team on ESG.	Oct 2020
Received a presentation from members of the internal sustainability team and Ernst and Young on climate change.	Dec 2020
The People Director presented an update on employees to the Board, which outlined the employee experience and impact leading up to, and during, the second period of national lockdown across England.	Dec 2020
Approved a proposal to refinance the Group's Tier-2 Bond, which was subsequently issued as a green bond. Proceeds from the bond will be allocated to buy-to-let lending of properties with an EPC rating of A or B.	Jan 2021
Received an update on employee feedback via the Nomination Committee.	Feb 2021
Received an update on the Group's 'Return to Office' project.	Mar 2021
Received a presentation on investor relations from the External Relations Director, which covered matters including share price development, an overview of the Group's share register and movements over the preceding twelve months, and shareholder feedback following the half year results announcement.	Jul 2021
Approved the Group's updated Equality, Diversity and Inclusion Policy.	Sep 2021

The way in which the Board discharged its duty to consider the interests of all stakeholders in these discussions is discussed in Section B4.3. Contributors to board papers are required to consider and highlight any potential principal stakeholder impacts of any proposal as a matter of course.

Board and committee attendance

The attendance of individual directors at the regular meetings of the Board and its main committees in the year is set out below, with the number of meetings each was eligible to attend shown in parentheses. Directors who are unable to attend meetings still receive the relevant papers and any comments / questions from them are reported to the meeting via the Chair. Directors have attended a number of ad hoc meetings, workshops and training sessions during the year and have contributed to discussions outside of the meeting calendar.

Director	Board	Audit Committee	Risk and Compliance Committee	Remuneration Committee	Nomination Committee
Fiona J Clutterbuck	10 (10)	-	4 (4)	6 (6)	3 (3)
Nigel S Terrington	10 (10)	-	-	-	-
Richard J Woodman	10 (10)	-	-	-	-
Peter A Hill	9 (9)	3 (3)	3 (3)	-	-
Alison C M Morris	10 (10)	5 (5)	4 (4)	6 (6)	-
Hugo R Tudor	10 (10)	5 (5)	4 (4)	6 (6)	3 (3)
Barbara A Ridpath	10 (10)	5 (5)	4 (4)	-	3 (3)
Finlay F Williamson	3 (3)	2 (2)	1 (1)	-	-
Graeme H Yorston	10 (10)	-	4 (4)	6 (6)	3 (3)

Directors also attended an annual two-day strategy event, to enable more detailed discussion of the Group's position and future development. This event has been a regular fixture in the Group's governance calendar for a number of years, which is also attended by the Group's executive management.

B4. Governance Framework

This section describes how Corporate Governance operates within the Group, setting out

B4.1	Board and committee structure – the forums through which corporate governance operates and how they relate to each other
B4.2	Elements of the governance framework – how the framework operates
B4.3	Board and stakeholders – how the Board discharges its duty to promote the success of the Group having regard to stakeholder interests
B4.4	Board evaluation and development – how the Board ensures the framework is, and will remain, fit for purpose
B4.5	Whistleblowing – how concerns may be raised and the action that is taken

B4.1 Board and committee structures

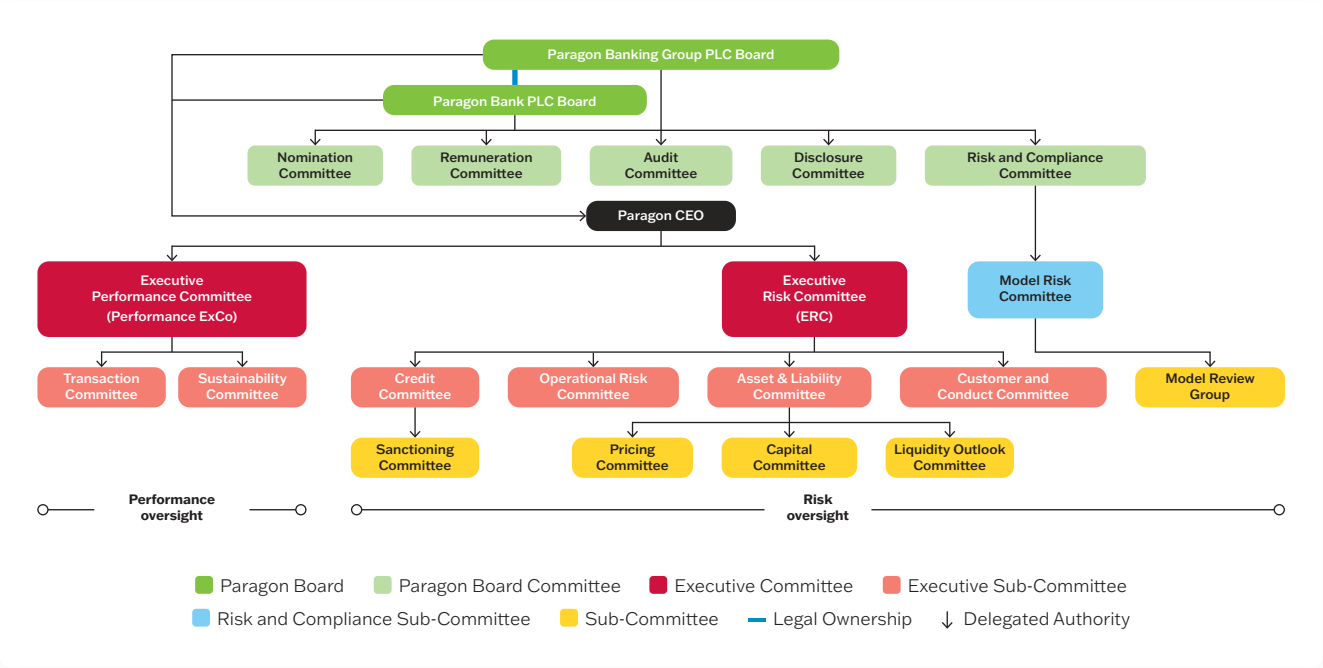
Board leadership, group purpose and the Corporate Governance Policy Framework

The Board of Directors is responsible for promoting the long-term, sustainable success of the Group, generating value for shareholders and contributing to wider society. It establishes the Group's overall purpose, values and strategy and ensures that these and the Group's culture are aligned. The Board is also responsible for delivery of these within a robust corporate governance framework. Purpose, values and strategy are described in Section A2 and the corporate governance framework is described in the following pages.

The Board of the Company and its subsidiaries are supported by the Group Corporate Governance Policy Framework ('the Framework'). The Framework provides key components of how the Board and its committees govern the business of the Company. Application of the Framework is within the context of other requirements, such as applicable laws, the regulatory regime for deposit taking banks, the Listing Rules, the Articles of Association of the Company and the Disclosure Guidance and Transparency Rules. On appointment, directors are briefed on their duties and responsibilities as a director of a listed company.

Board and committee structure and membership

The Board operates through a number of sub-committees covering a range of matters, set out below.



Summarised information on each of the board committees is set out below.

Committee	Audit	Remuneration	Risk and Compliance	Nomination
Chair	A C M Morris	H R Tudor	P A Hill*	F J Clutterbuck
Minimum number of meetings	4	3	4	2
Further information	Section B6	Section B7	Section B8	Section B5

*F F Williamson until December 2020.

Members	Independent non-executive	Audit	Remuneration	Risk and Compliance	Nomination
F J Clutterbuck	Until 10 May 2018*	No	Yes	Yes	Yes
P A Hill	Yes	From 25 February 2021	No	From 27 October 2020	No
A C M Morris	Yes	Yes	Yes	Yes	No
H R Tudor	Yes	Yes	Yes	Yes	Yes
B A Ridpath	Yes	Yes	No	Yes	Yes
F F Williamson **	Yes	Until 31 December 2020	No	Until 31 December 2020	No
G H Yorston	Yes	No	Yes	Yes	Yes

*Fiona Clutterbuck was considered as independent on appointment as Chair of the Board of Directors on 10 May 2018.

**Finlay Williamson resigned from the Board on 31 December 2020.

In addition to the memberships above, Hugo Tudor represents the non-executive directors on the Model Risk Committee ('MRC').

In addition to the regular committee structures, the Board has established a Disclosure Committee, which assists in the design, implementation and evaluation of disclosure controls and procedures. It also monitors compliance with the Company's disclosure controls, considers the requirements for announcements and overall determines the disclosure treatment of material market information. The Committee's members are the CEO, CFO and the External Relations Director, of which any two can form a quorum.

An informal Non-Executive Director Technology and Change Group was set up during the year and met with senior managers from the IT and Change functions on a quarterly basis (in March, May and August 2021) to increase the non-executive directors' understanding of current issues and developments in these areas.

Executive committee structures

The Group's executive management sit on two executive committees, the Performance ExCo and the ERC.

The Performance ExCo provides support to the CEO in the day-to-day running and management of the Group and, where appropriate, items discussed at the Performance ExCo are escalated to the Board for further discussion and decision.

The ERC supports the CEO with monitoring adherence to risk appetite statements and identifying, assessing and controlling the principal risks within the Group and reporting on these to the Board. ERC also supervises the evolution and further embedding of the Group's risk management framework.

Sub-committees

Performance ExCo sub-committees

The Sustainability Committee was established in September 2021 and reports directly to the Performance ExCo. Its members are the External Relations Director, who chairs the committee, the Balance Sheet Risk Director, Director of Treasury and Structured Finance, Managing Director – Commercial Lending, Managing Director – Mortgages, COO, Savings Director, People Director and Enterprise Risk Director. The Committee's purpose is to deliver a coordinated, transparent approach to ESG matters, including climate change, considering strategy, commercial implications, disclosure, engagement and insight.

The Transaction Committee, which reports directly to the Performance ExCo, consists of the CEO, the CFO, the Director of Treasury and Structured Finance and the CRO, any two of which can form a quorum, but that quorum should include either the CEO or CFO. The Committee meets to consider potential acquisitions or disposals of loan assets, where these are not large enough to require consideration at the Board.

ERC sub-committees

Four executive risk sub-committees, with membership consisting of executive directors and appropriate senior employees, report to the ERC. All of these committees are described further in the Risk Management Section B8.

All sub-committees, which report to either the ERC or Performance ExCo, are reviewed annually to determine whether further enhancements can be introduced, whilst maintaining rigorous oversight and control. All sub-committees operate within defined terms of reference and sufficient resources are made available to them to undertake their duties.

B4.2 Elements of the Governance Framework

Culture

The Group is proud of its culture, which has been noted as part of its Gold Investors in People accreditation (see Section A6.3). The Board considered culture as part of the annual review of the Group's purpose, values and strategy in April 2021.

To assess and promote the Group's culture, non-executive directors have attended People Forum meetings as part of the Board's commitment to engage directly with the workforce. Further detail can be found at B5.3. In addition, the Group has continued to run regular employee surveys during the year as well as conducting a full employee engagement survey in June 2021 that included specific questions on the Group's culture. Results from these surveys, together with direct employee feedback, were reviewed by the Nomination Committee on behalf of the Board and the high level of employee engagement aligned with the Group's purpose, values and strategy was noted.

Matters Reserved for the Board

The schedule of matters reserved for the Board is reviewed annually and details key matters for which the Board is responsible. Whilst a number of matters are reserved for the Board, the Board delegates certain responsibilities and authorities to the CEO and Board committees.

Division of Responsibilities between the Chair, CEO and Senior Independent Director

There is a clear division of responsibilities at the top of the Company between the running of the Board and the executive responsibility for the day-to-day running of the business of the Group. The Chair leads the Board and is responsible for its effectiveness and promoting, thereby, the high standard of corporate governance to which the Company subscribes. The CEO leads the day-to-day executive management of the business, reporting to the Board through the Chair.

The respective responsibilities of the Chair of the Board, the CEO and the Senior Independent Director are set out in the division of responsibilities statement, which is reviewed by the Board annually.

The Chair's other business commitments are set out in the biographical details Section B3.1.

Role of independent non-executive directors

Throughout the year the independent non-executive directors have formed the majority of the Board and consequently there has been a strong non-executive representation on the Board, including the Senior Independent Director, providing effective balance and challenge.

In addition to the general legal and regulatory responsibilities of all directors, non-executive directors' more specific responsibilities include providing independent oversight and determining appropriate levels of remuneration for executive directors. Non-executive directors attended People Forum meetings during the year, which provided an opportunity for engagement with the Group's people. More detail on these interactions can be found in section A4.6.3.

All non-executive directors are appointed for fixed terms, must ensure they have sufficient time available to discharge their responsibilities, and regularly update their knowledge and familiarity with the Group's business. The Chair of the Board was considered independent on appointment in 2018, having originally been appointed as a non-executive director in 2012. The non-executive directors meet with the Chair, from time to time, without the presence of the executive directors.

At the AGM, the Chair of the Board will confirm to shareholders, when proposing the re-election of any non-executive director, that, following formal performance evaluation, the individual's performance continues to be effective and demonstrates commitment to the role. The letters of appointment of the non-executive directors will be available for inspection at the AGM.

Role of the Senior Independent Director

Hugo Tudor has served as Senior Independent Director since 23 July 2020. The Senior Independent Director provides a sounding board for the Chair and serves as an intermediary for the other directors when necessary. The Senior Independent Director is available to shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact is inappropriate. The Senior Independent Director also leads the appraisal of the Chair of the Board's performance at least annually with the non-executive directors. Within this year's review consideration was given to the Chair's potential over-commitment due to her other Board roles. It was concluded that given that her M&G chair role is an interim position, and following positive confirmation from the other directors that no reduction in time commitment or performance had been identified, the Chair's performance remained at an exemplary level.

Conflicts of interest

The Board has agreed a policy for managing conflicts and a process to identify and authorise any conflicts that might arise in relation to significant shareholdings and / or third parties. At each meeting of the Board and its committees, actual or potential conflicts of interest in respect of any director are reviewed. A conflicts register is also maintained by the Company Secretary.

The Board recognises the benefits that can flow from non-executive directors holding other appointments but requires them to seek the agreement of the Chair before entering into any commitments that might affect the time they can devote to the Group.

Company Secretary

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that board procedures are complied with, advising the Board on governance matters, supporting the Chair and helping the Board and its committees to function efficiently. Both the appointment and removal of the Company Secretary are matters reserved for the Board.

Subsidiary governance

A number of the corporate entities within the Group are regulated either by the PRA and / or the FCA. The Company has oversight of these entities as part of its overall responsibility for the management of the Group and ensures that the Group's values and standards in regulated spheres are met.

Composition and succession

Composition and succession for the Board and senior management are considered within the Nomination Committee's report (see Section B5).

Board evaluation and training

The Board, individual directors and the Board's main committees are reviewed annually, with triennial externally facilitated reviews as required by the Code. Details of how the effectiveness of the Board and its Committees is evaluated are given in Section B4.4. The non-executive directors have received training during the year on various topics relevant to the Group. Further detail on the training undertaken is set out in Section B4.4.

Audit, risk and internal control

Information on how the Group has applied the provisions of the Code relating to audit, risk and internal control is set out in Section B6.

The directors' responsibility for the financial statements is described in Section B10.

Remuneration

Information on how the Group has applied the provisions of the Code relating to remuneration is set out in the Directors' Remuneration Report in Section B7.

Whistleblowing

The Group maintains a whistleblowing process to enable employees or other stakeholders to raise concerns anonymously. Information on whistleblowing is provided in Section B4.5.

Further information

Documents referred to in the Corporate Governance section are available on the Group's website (www.paragonbankinggroup.co.uk). These include:

- Matters Reserved for the Board
- Division of responsibilities between the Chair, CEO and Senior Independent Director
- Terms of Reference – Audit, Disclosure, Nomination, Remuneration and Risk and Compliance Committees
- Group Corporate Governance Policy Framework
- Internal Audit Charter

B4.3 Board and Stakeholders

Board and stakeholders

In addition to good corporate governance, maintaining a reputation for high standards of business conduct in all the Group's operations is a key priority for the Board, and management of conduct risk is a key part of the risk management framework. Section A6 sets out information on corporate responsibility, including the Group's people policies and engagement with employees, involvement in industry initiatives, support for the community and environmental, social and conduct impacts.

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

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

The Board confirms that, for the year ended 30 September 2021, it has acted to promote the success of the Group for the benefit of its members as a whole and continues to have due regard to the following matters laid out in S172 (1) of the Companies Act 2006:

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

b. The interests of the Company's employees;

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

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

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

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

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

The table below sets out how the Board and senior management take the above factors into account when engaging with the Group's key stakeholders, how this is aligned to the Group's strategic priorities and culture and why the stakeholders listed are significant for the Group.

Shareholders

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

Our strategy is to build a specialist bank for our customers, which delivers sustainable growth and shareholder returns through a low risk and robust model.

How we engage and / or monitor

- The Group has an Investor Relations Programme, where nearly fifty meetings were held with shareholders. In addition, the CEO and CFO hold regular meetings with analysts
- A comprehensive update on Investor Relations is included in the CEO's report to each Board meeting
- The Chair and SID / Chair of the Remuneration Committee held several meetings with shareholder advisory groups
- The Board receives an in-depth update on Investor Relations, which includes investor feedback, following the publication of the Company's financial results

Capital management

Growth

Diversification

Specialisation

Outcome

- The data on shareholder feedback provided helps the Board align the Group's strategy with the interests of shareholders
- Shareholder feedback was taken into account when drafting and implementing the Remuneration Policy
- At the AGM in February 2021, all resolutions were approved by shareholders, with over 90% of votes cast in favour of each resolution
- Articles of Association were updated at the 2021 AGM to provide more flexibility around our AGM arrangements and allow virtual participation by shareholders in the event of further restrictions on gatherings or travel
- A total dividend for the year of 26.1 pence per share is proposed, and a share buy-back programme of £40.0 million was authorised in the year

Further information on how the Group seeks to engage with and consider the views of all shareholders is given below.

The Group's approach to capital and distributions is set out in Section A4.3

Discussions with investors on remuneration matters are discussed in the Remuneration Report (Section B7)

Customers

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

Our customers are at the heart of our business and our eight core values underpin the way we interact with them every day. Engagement with our customers enables us to maintain our deep understanding of them and the markets they operate in, designing products to meet their needs and continually striving to exceed their expectations.

How we engage and / or monitor

- Regular customer satisfaction surveys on key product lines are reported to the Board
- Focussed analysis on key customer groups is undertaken
- The Board held a deep dive session on Customer Insights as part of its training agenda
- The Board considered and approved the transition from LIBOR to term SONIA for buy-to-let customers, focussing on customer outcomes
- Customer metrics have been a key element of the Performance Share Plan ('PSP') since 2020

Specialisation

Sustainability

Diversification

Outcome

- Customer feedback on key product lines, as measured by NPS, has remained strong
- Successful transition from LIBOR for buy-to-let customers completed by July 2021, with a rate promise to support a smooth transition and ensure our customers will not pay any more than they would have done had their account remained on LIBOR for the remainder of 2021
- Greater understanding of customers and their priorities is used to refine product offerings, documentation and processes
- Launch of the Asset Finance Broker Portal, allowing for a more efficient, automated process for customers
- Complaint levels remain low by industry standards

Further information on the Group's relationship with its customers is set out in Section A6.2

Employees

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

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

Sustainability

How we engage and / or monitor

- Regular employee Pulse Surveys and employee check-ins conducted
- Full employee engagement survey conducted in June 2021 with 86% of employees participating
- The People Director updates the Board and ExCo on employee feedback from surveys and from the People Forum, as well as other metrics
- Non-executive directors attend the Group's People Forum on a regular basis
- Designated ExCo members with responsibility for gender diversity and wider diversity regularly report progress on these matters
- EDI network launched in October 2020
- The Nomination Committee receives six-monthly updates on succession planning and feedback from the EDI network from the People Director
- People metrics have been a key element of the PSP since 2020

Outcome

- Employee survey results confirmed a very strong set of positive indicators, including an overall engagement score of 87%
- Hybrid working trial launched in 2021 following the easing of lockdown restrictions and incorporating employee feedback following an initial pilot
- Feedback from employee surveys enables the Board to support and understand employees and their engagement
- Tailored career development programmes embedded across the Group for apprentices through to high potential senior leaders
- Increased communication to employees regarding culture, values and purpose
- Enhanced annual leave provisions for all employees in the year

Further information on the involvement of the Group's people and the impact of policies on them, including steps taken to support them during the pandemic, can be found in Section A6.3

Regulators

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

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

How we engage and / or monitor

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

Capital management

Sustainability

Outcome

- Successful outcome to PRA review of capital and risk management processes in the year
- The Board approved the submission of IRB Module 2 to the PRA in February 2021
- All changes to the Board and Senior Management Functions are approved by the PRA and FCA

Further information on the Group's tax policies is set out in Section A6.5

Society and community

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

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

How we engage and / or monitor

- Members of the senior team are active in industry bodies, gaining insight into thinking about how the sector impacts communities and public policy
- ExCo members actively support community activities within the business
- Employees support a nominated charity each year via payroll donations and fund-raising efforts

Sustainability

Outcome

- During the first nine months of 2021 our employees raised nearly £22,000 for this year's nominated charity, the Alzheimer's Society
- Employees were supported to take part in a range of volunteering activities

Further information on the Group's community involvement is set out in Section A6.5

Environment and climate change

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

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

Sustainability

How we engage and / or monitor

- The Group has an executive level Sustainability Committee which addresses all climate related issues on a cross-group basis
- Climate change is designated a principal risk within the Group's risk management framework
- The Board received a comprehensive presentation on climate change and is regularly provided with a climate change summary
- The Board receives updates on the potential risks and strategic impacts of climate change
- The Group was part of the working group involved in establishing UK Finance's Sustainable Finance principles-based framework
- The CFO has been designated as the responsible director for climate change exposures and reports to the Board
- The Group complies with all applicable laws and regulations relating to the environment

Outcome

- The Group was the first UK bank to issue green bonds. The proceeds of the green bond are allocated to green loans, incentivising landlords to mitigate the impact of climate change
- London premises consolidated into a single, more energy-efficient location
- The Board established new objectives against current energy performance to further reduce consumption
- An ESG team was established, and the executive level Sustainability Committee was created during the year
- This year the Group will publish its first sustainability report in December 2021 and has a dedicated Sustainability section on its website

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

Business partners and suppliers

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

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

How we engage and / or monitor

- Key business partner relationships, including intermediaries and suppliers are identified, actively monitored and reported to ExCo and the Board
- Regular feedback surveys conducted amongst intermediaries with the results fed back to ExCo and Board
- The Group has a Supplier Code of Conduct which sets out our overall approach to supplier engagement and corporate responsibility

Sustainability

Outcome

- Intermediary feedback key to designing new broker portals and other operational systems
- Our suppliers understand the minimum standards we expect from them and our commitments and expectations around bribery and corruption, data protection and modern slavery
- Ongoing engagement with our key suppliers ensuring operational resilience and reduced risk
- The Group is a signatory to the UK's Prompt Payment Code, with ensuring prompt payment a priority in the year

The Group's management of business partner relationships is discussed further in Section A6.7

Shareholders

The Board encourages communication with the Company's institutional and private investors. All shareholders have at least twenty working days' notice of the AGM, at which the directors and committee chairs are available for questions. The AGM is normally held in London during business hours and provides an opportunity for directors to report to investors on the Group's activities, to answer their questions and receive their views. At all AGMs shareholders have an opportunity to vote separately on each resolution and all proxy votes lodged are counted and the balances for, against and directed to be withheld in respect of each resolution are announced.

The 2022 AGM will take place at 9am on 2 March 2022 at the offices of UBS AG London Branch, 5 Broadgate, London, EC2M 2QS. In the event that Covid restrictions on gatherings or travel are imposed, the Group will make appropriate alternative arrangements to comply with any such restrictions and provide arrangements that will allow shareholders to participate in the meeting.

The CEO and CFO have a full programme of meetings with institutional investors and during the year ended 30 September 2021, meetings were held with investors from the UK, Europe and North America.

The Chair of the Board and the Senior Independent Director, who is also the Chair of the Remuneration Committee, held meetings with shareholder advisory groups covering governance and remuneration matters (as set out in the Remuneration Report in B7).

From time-to-time other presentations are made to institutional investors and analysts to enable them to gain a greater understanding of important aspects of the Group's business.

Investors' comments from all of these interactions are communicated to the Board, enabling the Board to develop an understanding of major shareholders' views of the Group, and take those views into account when determining strategy.

The Senior Independent Director is also made aware of views expressed by shareholders to other members of the Board, via the Company's brokers or through the Investor Relations team. Meetings between the Senior Independent Director and shareholders can be arranged via the Company Secretary.

The Director of External Relations updates each meeting of the Performance ExCo on changes in the Group's shareholder base and on shareholder interactions.

B4.4 Board evaluation and development

Board evaluation

The effectiveness of the Board, individual directors and the Board's main committees is reviewed annually, with this year's review being internally facilitated as permitted by the Code. The Board also monitored progress on the recommendations from the internal review carried out in 2020. The next external evaluation will be conducted by the end of 2022.

2020 internal evaluation findings – Progress report

Following last year's internally facilitated evaluation, significant progress has been made on addressing actions arising out of the evaluation. Progress highlights are set out in the table:

Recommendation / action	Progress update
Board	
IT and digital experience	
More IT and digital experience and engagement.	An informal non-executive director Technology / Change Group was established, with quarterly meetings held with relevant senior executives.
Skills matrices	
Increased formality and reference to the skills matrix required for future non-executive director appointments.	A more formal process and greater reference to the skills matrix has been deployed.
Senior management contact	
More contact with the senior executives who are running the businesses.	Updates from ExCo members and their direct reports are incorporated into the Board forward planner and these persons regularly present to Board.
Mentoring by non-executives	
Non-executive director mentoring of high potential individuals was suggested.	It was agreed that this would not be pursued at this stage. The Board concluded that external mentoring would be preferable to mentoring by non-executive directors of the same organisation. High potential individuals will meet with the Board as appropriate, and the non-executive directors will confirm with the executive directors if there are particular individuals or areas of the business they want to meet with.

2021 internal evaluation

The output of the 2020 internal board evaluation was referred to in determining questions for this year's evaluation which, again, considered the performance of the Board, its committees, and all individual directors, including the Chair. In constructing the questions consideration was also given to the 2019 external evaluation, the Code and guidance from the FRC and other relevant sources.

The Board evaluation considered its composition, the balance of skills, experience, independence, knowledge and diversity, how the Board works together and other points pertinent to its effectiveness. The evaluation also included specific questions on Board performance during the pandemic. More detailed findings from the Board evaluation included the following, against which progress will be reported next year.

Issue	Recommendation / action
Board	
Length of papers	
Shorten papers, where possible.	The General Counsel and Company Secretary would look at increasing the use of the resources section of the board portal, where appropriate, and would liaise with other presenters with a view to making their papers more concise.
Board skills	
The need to address gaps in BAME representation / ethnic diversity and PLC experience.	Nomination Committee succession planning conversations actively consider the need for BAME representation / ethnic diversity on the Board. The Nomination Committee Chair will ensure focus is maintained on addressing this gap. The General Counsel and Company Secretary will look to enhance the level of PLC experience via additional board training.
Governance	
The volume of committee meetings should be reduced and / or authority levels improved (taking the learnings from the pandemic into account).	It was agreed that no change should be made to the volume of board committee meetings. It was also agreed that the action could be closed following approval of a delegated authority proposal for the executive directors.
Risk	
Wider horizon scanning to be undertaken.	The CRO and CEO will regularly bring emerging risk updates to the Risk and Compliance Committee and Board for challenge.
Audit Committee	
More finance team members to present papers at Audit Committee meetings.	The Audit Committee Chair and the CFO will keep this under review and will arrange for Audit Committee meeting attendance by finance team members when appropriate.
More work on combined assurance is required.	The Risk and Compliance Committee is monitoring progress on combined assurance work following Risk and Compliance Committee, Audit Committee and Board discussions on the matter.
Risk and Compliance Committee	
Over time, greater delineation between Risk and Compliance Committee and Board should be achieved, after which Risk and Compliance Committee membership should be reconsidered.	The Risk and Compliance Committee will continue to review its membership and effectiveness annually.

Individual director evaluations considered whether each director continued to contribute effectively and demonstrated commitment to their role, for example in devoting sufficient time to their board duties. The evaluation also reviewed whether the Board and committees continued to have the requisite expertise to properly discharge their duties.

A review of the performance of the executive directors took place at the Remuneration Committee meeting in September 2021 that considered remuneration packages for 2021/22.

Led by the Senior Independent Director, the performance of the Chair of the Board was evaluated by the non-executive directors

The Chair of the Board appraised the performance of the non-executive directors during August 2021, meeting with each non-executive director on a one-to-one basis to evaluate their performance and agree development areas. These conversations also provided an opportunity for the Chair to obtain individual non-executive directors' views on board effectiveness.

Results of these discussions were distributed to the Board, who considered the results and a schedule of follow up matters / actions at its meeting in October 2021. An action plan was reviewed and agreed for implementation during the next financial year, which will be refined and monitored during the period.

At the AGM the Chair will confirm to shareholders, when proposing the re-election of any non-executive director, that, following formal performance evaluation, the individual's performance continues to be effective and demonstrates commitment to the role. The letters of appointment of the non-executive directors will be available for inspection at the AGM.

Induction

All directors receive an induction training schedule tailored to their individual requirements upon joining the Board. The induction, which is designed and arranged by the People Director in consultation with the Chair and Company Secretary, includes meetings with existing directors, senior management and other key personnel, to assist new directors in increasing their knowledge of the Group's operations, management and governance structures, as well as key issues for the Group.

During the year Peter Hill, who was appointed on 27 October 2020, has had meetings with senior employees in the Risk, Finance and Internal Audit areas to brief him on the work of those areas and the particular issues within those areas most relevant to his position as Chair of the Risk and Compliance Committee.

Development

Further to the 2020 board evaluation, a skills matrix was produced for completion by each board member, the aim of which was to identify the key areas for ongoing board development and to assess the necessary skills and experience when considering future board succession planning. Further detail on training undertaken by the Board during the year can be found in Section B3.3.

A number of topics have been agreed for board development over the coming year (including training on regulatory-focussed AML, IRB, conduct risk, the Enterprise Risk Management Framework, and the new FCA Consumer Duty), in order to retain a diverse balance of skills and increase coverage in key areas to support oversight and delivery of the corporate plan.

Separately, ongoing individual development opportunities will be provided, as required, during the forthcoming financial year. A training schedule is maintained by the Group's Human Resources department in conjunction with the Company Secretary.

The non-executive directors have received presentations during the year on various aspects of the Group's activities to support their on-going business awareness and development. The Board has dedicated a number of days during the year to training and will undertake additional training as required by the Group's strategy and operational needs.

Topics for board training sessions are recommended by the Board, and provide for a balance of technical, risk, management, governance and professional development. All directors completed a variety of regular training modules that are mandatory for Group employees.

Further business insight and awareness sessions and deep dives on particular areas are held regularly to provide non-executive directors with the appropriate depth of knowledge to contribute effectively at board meetings on key topics. In particular, during the year the Board received training on topics related to risk and sustainability. More detail is available in Section B3.3.

B4.5 Whistleblowing

The Group has an established procedure whereby employees can make disclosures regarding potential wrongdoing within the Group on a confidential basis, in accordance with the Public Interest Disclosure Act 1998 ('PIDA'). The policy also makes provision to ensure that no employee making such a disclosure suffers any detriment by doing so. A whistleblowing service is operated for the Group, at arm's length, by a third-party charity, Protect. This process was supervised by the Board during the year, in accordance with Code requirements, and any amendments to the policy required the approval of the Chair.

If an employee is dissatisfied with the investigation, or any action taken as a result, they may request a confidential meeting with any member of the Whistleblowing Committee to discuss the matter further. The Chair of the Audit Committee, a non-executive director, is the Group's designated whistleblowing champion.

To ensure that the policy is embedded in the operations of the Group all employees received training on the requirements of PIDA and the Group's policy during the year and were tested to ensure their understanding. There were also internal publicity campaigns promoting the whistleblowing procedures.

During the year ended 30 September 2021, there were no instances of whistleblowing which resulted in a requirement for full consideration by the Whistleblowing Committee or subsequent consideration by the Board.

In addition, the Group's principal regulators, the PRA and FCA, operate whistleblowing services available to customers and other third parties. Details of these services are provided to the Group's customers and included on its websites.

B5. Nomination Committee

> **The Group recognises the importance of diversity, including gender diversity, at all levels of the organisation.**
>
> **Fiona Clutterbuck,** Chair of the Nomination Committee

B5.1 Introduction by the Chair

Dear Shareholder

The Nomination Committee is the forum used by the Board to consider certain governance matters. These are vital issues for the Board and the Group, and this has seen the Committee's workload increase significantly over recent years.

During the year the Committee has overseen the appointment of a new Risk and Compliance Committee Chair. Peter Hill was appointed to the Board on 27 October 2020 and became Chair of the Risk and Compliance Committee with effect from 31 December 2020.

I have served as Chair of the Board and the Nomination Committee since May 2018. However, given my tenure on the Board reached nine years in September 2021 the Nomination Committee, on behalf of the Board, has begun the process to oversee the appointment of a new Chair.

The primary aims of the Committee in this process, which is well progressed, are to ensure that the person appointed has the requisite skills and knowledge for the role, benchmarked against the board skills matrix; that there is a strong cultural fit with the Group; and that an orderly handover process will be achieved. Following the appointment of the candidate best meeting these criteria, the Committee will consider the subsequent steps it needs to take to address the experience, skills and diversity of the board as a whole.

The remit of the Committee also covers people-related sustainability issues, with the launch of the Group's Equality, Diversity and Inclusion Network in the period and continued employee voice arrangements being particularly noteworthy. I look forward to the contribution these initiatives will continue to make to the Group's strategy and culture in the future.

The Committee supports the objectives of the Parker Review and is mindful of the required timescale for FTSE 250 companies. The Committee will oversee a recruitment and selection process during the forthcoming year to improve the ethnic diversity of the Board, with the intention of meeting the Parker Review requirements ahead of its 2024 deadline.

Overall, I believe the Committee has enjoyed a year of positive achievement and fully satisfied its mandate from the Board.

Fiona Clutterbuck
Chair of the Board and the Nomination Committee
7 December 2021

B5.2 Operations of the Committee

The Nomination Committee is chaired by the Chair of the Board and includes three independent non-executive directors. The Committee's role is to ensure that there is a formal, rigorous and transparent procedure for the appointment of new directors to the Boards of the Company and of Paragon Bank PLC; to lead the process for board appointments and make recommendations to the Board. Ultimate responsibility for any appointment remains with the Board. Its role also includes:

- Keeping under review the structure, size and composition of the Board (including its skills, experience, independence, knowledge and diversity) and making any recommendations it deems necessary to ensure that it is effective and able to operate in the best interests of shareholders and other stakeholders
- Considering re-appointment of directors, re-election of directors and the independence of non-executive directors
- Ensuring that plans are in place for orderly succession to positions on the Board and senior management and overseeing the development of a diverse pipeline for succession to the Board and senior management roles
- Overseeing the Group's initiatives on management of diversity, with a particular focus on its participation in external programmes, such as the Women in Finance Charter and reporting such as gender pay reporting
- Monitoring workforce engagement and seeking employee feedback on behalf of the Board

The membership of the Committee and the record of their attendance at meetings is given in Section B3.3.

B5.3 Matters considered by the Committee during the year

Board appointments

During the year, the Committee appointed a new Risk and Compliance Committee Chair, Peter Hill, to succeed Finlay Williamson who stepped down from the Board at the end of December 2020. Peter followed a structured induction and handover both prior to starting his role and during his first year of appointment. Peter brings with him a wealth of experience in financial services and a proven track record in risk oversight, gained during his executive and non-executive career.

The Committee, on behalf of the Board, has commenced a search to appoint a new Chair. This is expected to conclude over the coming months and is in response to the existing Chair reaching nine years' tenure during September 2021.

The search process is being led by Hugo Tudor, Senior Independent Director, with support from Anne Barnett, People Director and is being undertaken in conjunction with Jamie Risso-Gill from Per Ardua Associates. Per Ardua Associates do not have any connection with the Group or any of its directors.

The Committee has reviewed and agreed a role profile and a shortlist of candidates has been identified for a series of interviews with members of the Board, including the CEO. Once the Committee has made a recommendation to the Board an application will be submitted to the PRA for consideration and approval. PRA approval is required as the role will hold a Senior Management Function under the Senior Managers' Certification Regime.

As it has done for a number of years the Committee considered the re-appointment of the serving directors and recommended to the Board that resolutions for their re-appointment should be proposed at the AGM.

Succession planning

Succession plans for the Board and the Executive Committee were reviewed during the financial year. The tenure of non-executive directors is monitored by the Committee. Emergency cover is in place for the executive directors and their direct reports.

The Human Resources department has a wider succession development plan for senior management roles across the Group, prioritising those positions likely to require recruitment within the next five years. Bespoke development plans are in place for strong performers identified as having high potential and their progress is overseen by the Committee.

Risk mitigation for the loss of senior employees continues to include the ongoing development of employees, as well as work to further validate potential candidates for senior positions. Development work on potential candidates occurs with those employees remaining in their current roles, as this training is undertaken to minimise business impact while ensuring that candidates are enabled to undertake a more senior role in due course.

The Group's preference, where possible, is that internal candidates are developed and supported to undertake more senior roles, as this assists in the ongoing maintenance of its strong culture and values. It also acknowledges the benefits which can arise from the hire of strong external candidates to add experience and bring a fresh perspective to strategic thinking. In addition, the senior leadership development programme is also focussing on increasing the diversity of the Group's talent pool in support of the overall approach to equality and diversity.

Board skills matrix

The Committee considered a revised skills matrix at its October 2020 meeting following the outputs from the Group's virtual strategy event in July 2020. This was further reviewed and updated by the Committee in February 2021 and subsequently approved by the Board.

The matrix reflects the Group's strategic aim of becoming a technology-enabled specialist bank, and the skills considered include matters such as demonstrating sound knowledge of the UK retail banking sector; understanding capital requirements and liquidity models; insight into the application of technology in a financial services environment; and customer insight and understanding the specialist lending sector.

The board skills matrix is reviewed annually by the Committee and forms the basis for continuing professional development and future succession plan requirements.

Diversity

The Group recognises the importance of diversity, including gender diversity, at all levels of the organisation. The Group strongly values diversity on the Board, not only of gender, but also of experience and background, recognising the contribution such diversity can make towards achieving the appropriate balance of skills and knowledge which an effective board of directors requires. The Board is delighted to have achieved 38.7% female representation at Board and senior management level, exceeding the original Hampton-Alexander Review targets and the Group is aligned to the ongoing objectives of the FTSE Women Leaders Review, which will build on Hampton-Alexander going forward.

When the Group signed up to HM Treasury's Women in Finance Charter initiative during 2016 its target was to achieve 35% female representation at senior management level by January 2022, increasing from 26% at the time the targets were set. The Group is proud to have met this target, and all of its other Women in Finance targets, ahead of the deadline. As well as the headline target for women in senior positions, the Women in Finance commitments also included targets on women and ethnic minorities in management roles more widely, helping to build a platform for the next phase of the initiative. The Board will review the targets for the next phase of Women in Finance during the coming year.

The Committee is pleased that so many employees provided diversity data for analysis during the year and is confident that this information will enable a more analytical approach to the Group's diversities going forward. In October 2020 the Group launched its Equality, Diversity, and Inclusion ('EDI') Network and the Committee receives regular updates on its plans and activities. The Committee has monitored the activities of the EDI Network with interest throughout its first year, and was pleased with the contribution it is already making to the Group's progress in this area.

More details of the activities delivered with the involvement of the EDI Network in its first year, including the commitments made by the Group under the Race at Work Charter and the Disability Confident Employer Scheme are provided in Section A6.3.

During the year the Committee reviewed the Group's gender pay report and supporting analysis. It carefully examined changes since the previous report and considered the underlying challenges with the reporting rules, in the management structure and in the nature of strategic developments in the Group that make closing the gender pay gap difficult, as it is for other financial services firms. This will continue to be a focus for the Committee.

The Group's diversity policies were updated during the year and are described in Section A6.3. Information on the composition of the workforce, including the gender balance of those in senior management and their direct reports is given in Section A6.3 and the Group's gender pay gap statistics are also discussed in that section.

Workforce engagement

The Committee has received regular updates on workforce engagement and board members have engaged directly with the workforce throughout the year through both formal and informal channels.

The Group has continued to run regular employee surveys during the year in response to the Covid pandemic and the People Director provides updates on the results of these to the Committee. In addition, the Group conducted a full employee engagement survey in June 2021 and 86% of employees shared their views. The results confirmed a very strong set of positive indicators, including an overall engagement score of 87%; 10 percentage points above the industry norm and 6 percentage points higher than the score achieved in the last survey, completed in December 2017.

Additionally, non-executive directors have attended People Forum meetings to discuss topics including executive pay and reward; pay and reward for the wider workforce; and how the Group has managed employees' return to the office to trial hybrid working from both customer and employee perspectives. These meetings provide employees with an opportunity to ask questions of board members and provide direct feedback. These meetings will continue to be a regular feature of the board calendar.

B6. Audit Committee

> **The exercise of credit judgement to determine appropriate levels of provision is crucial and the Committee has taken its role in ensuring those judgements are rigorously challenged**
>
> **Alison Morris,** Chair of the Audit Committee

B6.1 Statement by the Chair of the Audit Committee

Dear Shareholder

Once again, I find myself writing to you at the end of a challenging year for the Committee. The economic uncertainties arising from the ongoing Covid pandemic continue to impact on the accounting judgements the Committee has to consider. Within the business, the changes in working practices through the year and the corresponding developments in internal control processes meant that the Committee's role in promoting the strength of the control environment was vital.

As with much of the banking sector, the principal accounting challenge for the Group in the period has been the estimation of expected credit losses under IFRS 9. With models based on historic data unlikely to perform well in the unprecedented circumstances of the Covid pandemic, the exercise of credit judgement to determine appropriate levels of provision is crucial and the Committee has taken its role in ensuring that those judgements are rigorously challenged very seriously.

This has also involved a focus on the Group's economic and business forecasting more widely, including the stress testing of the Group's business plans.

I and my fellow committee members considered much detailed information on these areas and engaged with both the Group's financial and wider management and with the external auditors in order to conclude that the approach adopted was acceptable.

Adjustments to model outputs and additional overlays have been required to deal with the levels of uncertainty engendered by the current environment, and these have been a subject of particular focus for my colleagues and me.

While the current year's accounting environment was challenging, the Committee also had to address the ongoing development of the regulatory landscape surrounding reporting and governance. We considered the Group's responses to PRA reviews of accounting and disclosures on elements of IFRS 9 impairment and monitored the progress of the Group towards TCFD reporting, including the new disclosures made in this annual report.

We also considered the potential impact of the proposals on reporting and governance published by BEIS, and submitted a response to the Department, highlighting our belief that any reforms should prioritise audit quality and deliver real benefits to stakeholders. We await the final proposals with interest.

The Group's internal audit function continued to develop during the year, responding both to the challenges of new processes and ways of working and also to the continuing development of the Group's wider control framework. Change assurance was embedded as a discipline within the function and internal audit provided the Committee with assurance on key strategic projects, such as LIBOR transition.

As this is the sixth year of the current KPMG LLP ('KPMG') audit mandate, I was able to welcome a new engagement partner, Simon Ryder, and ensure that the Committee's relationship with the auditors continued to operate effectively. As required by regulation, the Committee considered its intentions for the future tendering of the audit mandate and concluded that there was no present need to retender for any year earlier than that required by law or independence requirements.

During the year I met with the team from the Financial Reporting Council's Audit Quality Review ('AQR') team, who conducted a review of the KPMG audit of the Group's 2020 financial statements during the year, as part of their normal review cycle. I received the final report shortly before the date of this report, and was pleased to note that no significant issues were raised. All matters included in the report had already been brought to the Committee's attention and discussed with KPMG. The Committee remains conscious of the AQR's reports on KPMG as a firm and in particular their approach to banking audits. These have been discussed at length with the KPMG team in the context of our own audit.

In the coming financial year ending 30 September 2022, the Committee's main priorities will include:

- Continuing to monitor the potential impacts of Covid on the Group's ECL provisioning as the effects of government interventions in the UK economy begin to diminish, and the long-term impacts of the pandemic become clearer
- Considering the continuing need for and appropriate level of post-model impairment provisioning adjustments as economic and business conditions revert to a position which can be dealt with more easily by the Group's impairment models
- Supervising the development of the Group's IFRS 9 impairment approach in line with emerging best practice, learnings from the pandemic and developments in the Group's businesses
- Analysing regulatory developments in accounting, reporting and auditing, particularly the result of the BEIS consultation, and ensuring the Group is properly positioned to respond
- Ensuring that the Group's control processes, and internal audit capabilities, continue to evolve alongside developments in the business

I would like to thank my colleagues on the Committee for their application and diligence over the year in dealing with a very full workload, and also the many people across the Group who have helped to support us in this work and, in particular, those who have helped me familiarise myself with the Group's operations and reporting in this, my first full year as Chair of the Committee.

I commend this report to shareholders and ask you to support the resolutions concerning the reappointment of KPMG as auditors and their remuneration at the AGM in March 2022.

Alison Morris
Chair of the Audit Committee
7 December 2021

B6.2 Operations of the Committee

The Audit Committee currently comprises four independent non-executive directors of the Company whose relevant experience is set out in Section B3. Peter Hill joined the Committee on 25 February 2021. In addition, Finlay Williamson was a member of the Committee until stepping down from the Board on 31 December 2020.

The terms of reference of the Committee include all matters indicated by Disclosure and Transparency Rule DTR 7.1 and the Code. These terms of reference were most recently updated in September 2021 and are available on the Group's website. The Committee's key responsibilities include:

- Monitoring the integrity of the Group's financial reporting
- Reviewing the Group's risk management and internal financial control systems
- Monitoring and reviewing the effectiveness of the Group's internal audit function
- Monitoring the relationship between the Group and the external auditor

It also provides a forum through which the Group's external and internal audit functions report to the non executive directors.

The Internal Audit Director reports to the Chair of the Committee. She attends all meetings of the Committee and also reports regularly to the Risk and Compliance Committee.

The Committee considers that, as a whole, it possesses the competence relevant to the sector in which the Group operates which the Code requires. Alison Morris has competence in accounting and auditing while other committee members have experience in various aspects of the financial services industry.

The Committee meets at least four times a year and has an agenda linked to events in the Group's financial calendar. Meetings generally take place before the half year and year end reporting dates in March and September and before the approval of results in May and December. The Committee normally invites the Chair of the Board, the executive directors, CRO, Group Financial Controller, Internal Audit Director and a partner and other representatives from the external auditor to attend meetings of the Committee, although it reserves the right to request any of these individuals to withdraw if appropriate.

For part of each meeting the Committee meets separately with representatives of the external auditor and with the Internal Audit Director without any other persons present.

During the year ended 30 September 2021, the Committee met four times. Its principal activities were:

- The review of the annual and half-yearly financial statements to ensure these properly present the Group's activities in accordance with accounting standards, law, regulations and market practice
- The consideration of the appropriateness and application of the Group's accounting policies for the recognition of interest income and loan impairment, amongst other significant accounting issues
- The review of other financial information published by the Group, such as Pillar III disclosures required by banking regulations
- Review of the terms of reference of the Committee and approval of revised terms
- Consideration of the Group's readiness to address other forthcoming accounting and reporting changes which will affect it
- Discussion of the AQR review of the Group's external audit for the year ended 30 September 2020, which was carried out in the year

The Committee approves and monitors progress against the Group's Internal Audit Plan. It assesses the adequacy of resources available to the internal audit function and it receives reports of internal audit reviews conducted across the Group.

From time to time, where there are major changes in the Group's accounting policies or audit arrangements in progress, the Chair of the Committee will hold meetings with shareholders.

Details of the Committee members' attendance at meetings and of the Board's evaluation of the Committee's effectiveness are given in Section B3.3.

B6.3 Significant issues addressed by the Committee in relation to the Financial Statements

The Committee considers whether the accounting policies adopted by the Group are suitable and whether significant estimates and judgements made by the management are appropriate. In evaluating the Group's financial statements for the year ended 30 September 2021 the Committee particularly considered:

- The levels of impairment provision against loan assets under IFRS 9 and, particularly, the ongoing uncertainties created by the economic impact of the Covid pandemic on both customer credit and issues faced by mechanistic provisioning methodologies in responding to these unprecedented circumstances
- The calculation of interest income under the Effective Interest Rate ('EIR') method for both internally originated and purchased loan assets and the Group's borrowings
- The requirement for any impairment provision against the purchased goodwill carried in the Group's balance sheet, based on the most recent forecasts for the businesses concerned
- The valuation of the deficit in the Group's defined benefit pension scheme
- The viability statement which the Group is required to make under the Code
- The Group's capital and funding position and the Group forecasts for future periods and their impact on the going concern assessment for the Group

In each case the Committee considered whether these matters were clearly and sufficiently disclosed in the accounts with appropriate sensitivities shown for all significant estimates.

The Committee also considered whether this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

In each of these areas the Committee was provided with papers prepared by management and reviewed by the external auditor discussing the position shown in the accounts, the underlying market conditions and assumptions and the methodology adopted for any calculations. The papers also detailed any changes in approach from previous periods. These were reviewed in detail and discussed with the relevant group employees and the results of this work were considered, together with the results of testing by the external auditor. There were no material or significant disagreements between the management and the external auditor.

Particular matters which the Committee focussed on in each of these areas were:

Matter	Particular areas of focus
Loan impairment	IFRS 9 requires that companies provide for future ECL's on any financial asset held on the balance sheet on the amortised cost basis. Their forward-looking nature means that such provisions are heavily dependent on the use of judgement and estimation techniques to evaluate the likelihood of loss on accounts and the potential amount of that loss. In the current Covid-impacted economic environment, this consideration of ECLs is particularly complex, due to uncertainties over the impact of government interventions and the long-term effects of the pandemic. In order to satisfy itself that the process applied by the Group resulted in an appropriate level of provisioning in accordance with IFRS 9, the Committee considered particularly: • The methods used to estimate probabilities of loss and potential losses, both mechanical and judgemental • The assumptions used as inputs in these calculations • The economic projections used in deriving ECLs • The definitions of significant increase in credit risk, credit impairment and default for ECL purposes • The appropriateness of the calculated provisions in light of government interventions in the UK lending market and the economy more generally • The appropriateness of post-model adjustments made to compensate for factors not fully addressed in the modelling To substantiate these decisions, the Committee considered actual results in the year compared to those predicted by the impairment methodology and the continuing relevance of historical information used in the process based on present economic conditions, lending and account administration practices. In respect of the impact of the pandemic, the Committee considered the extent to which modelled approaches based on past history may not be relevant in current economic conditions, and the implications for impairment calculations of reliefs given to customers and other interventions by the UK Government. A particular focus continued to be given to the Group's receiver of rent portfolios and the level to which their ultimate loss levels accorded with expectations. *Further information on these estimates can be found in note 63a to the accounts, the impairment charge for the year and the movements in provision for impairment are shown in note 18.* *The Group's exposure to credit risk is discussed in note 55*

Matter	Particular areas of focus
Interest income recognition	As required by IFRS 9, the Group recognises income from loan balances on an EIR basis, which is intended to produce a constant yield throughout the behavioural life of the loan, taking account of such matters as costs of procuration, and initially fixed or discounted interest rates. The calculation therefore rests on assumptions about the future behaviour of the Group's customers. The Committee assessed the appropriateness of the assumptions made, considering performance of the portfolios against expectations and the impact of changes in product specifications. Redemption profiles used in the modelling of mortgage books and the availability of alternative offerings in the market were areas of particular focus. For acquired assets which were considered credit impaired on purchase, where carrying value is based on expected cash flows, the potential further economic impacts of Covid on customer behaviour were carefully considered. *Further information on these estimates can be found in note 63b to the accounts, and the interest income and expense recognised on this basis is shown in notes 4 and 5*
Goodwill impairment	The Group is required to assess, at least at the end of the year, whether the carrying value of the acquired goodwill balance in its accounts, which is not subject to amortisation under IFRS, remains appropriate or whether any impairment has occurred. This includes both newly acquired goodwill and goodwill arising from previous acquisitions. Due to the impact of Covid this was also considered in full at the half year. In considering whether any impairment of goodwill had occurred the Committee particularly considered the Group's forecasts for the future cash flows of the acquired businesses and their reasonableness in light of current trading performance together with the Group's strategy for these operations. *The potential impairment of goodwill is discussed in notes 63c and 25*
Defined benefit pension obligations	The deficit on the Group's defined benefit pension plan is valued in accordance with IAS 19, which requires an actuarial valuation of the plan liabilities. Such a valuation is based on assumptions including market interest rates, inflation and mortality rates in the Plan. In order to satisfy itself as to the appropriateness of these assumptions, the Committee considered their derivation and the market data underlying them. These were compared to market benchmarks and advice from the Group's actuarial advisers. The Committee also considered benchmarking data provided by the external auditor. *Further information on the Plan deficit, the basis of valuation and the assumptions underlying it can be found in note 52 to the accounts, along with an analysis of sensitivities to the more significant assumptions*
Viability statement	The Board is required by the Code and the Listing Rules to make a viability statement in the Annual Report. The Committee has been asked to express an opinion to the Board as to whether this statement could properly be made. The Committee considered aspects of the work of the Board and its various committees which addressed the Group's business model, risk profile, access to funds and future strategy. They also considered guidance issued by the FRC and stress testing which had been carried out in the year, particularly focussing on the impact of Covid both on the Group's business and the levels of potential variability in the forecasting. *A fuller discussion of the directors' consideration of the viability statement is set out in Section A5*

Matter	Particular areas of focus
Going concern	The Board is required by the Code and the Listing Rules to make a going concern statement in the Annual Report. The Committee has been asked to express an opinion to the Board as to whether this statement could properly be made. The Committee considered the Group's detailed forecasts and the implicit cash and capital requirements. It also considered internal stress testing procedures, including the ICAAP and ILAAP outputs, prepared for regulatory purposes. The Committee discussed availability of funding, potential stress events and the impact of the economic environment, including the uncertainties created by the impact of Covid on the UK economy generally and the Group's operations in particular. *A fuller discussion of the directors' consideration of the going concern statement is set out in Section A5*
Internal control and risk management	The Board is required to make statements in the Annual Report and Accounts relating to the Group's systems of internal controls and risk management. The Committee considered an evaluation prepared by the Risk function, together with the findings of internal audit reports in the year and its own engagement with the management information of the Group and the executive directors. *The Board statements on internal control and risk management are set out in Section B8 and B9*
Fair, balanced and understandable	The Board is required by the Code to state whether, in its view, the Annual Report is fair, balanced and understandable. The Committee has been asked to express an opinion to the Board as to whether this statement could properly be made. The Committee considered the draft Annual Report for the financial year, as a whole, satisfying itself that the process for the preparation and review of its various sections, was appropriate. The Committee especially focussed on areas where disclosure requirements had changed or where new activities or considerations were to be reported on. For the current financial year this included particularly the presentation of the impact of Covid on the Group's business and results, particularly the impact on ECL provisions. Based on this exercise, and the Committee's own understanding of the business in the year, it determined whether the Annual Report, overall, portrayed the Group's activities, position and results properly.

The Committee was able to reach satisfactory conclusions on all of these areas and therefore resolved to commend the Annual Report to the Board for approval, and to advise the Board that it can conclude that the Annual Report is fair, balanced and understandable.

Earlier in the year the Committee had considered each of these areas, where applicable, in the same manner in concluding that it could commend the Group's half-yearly financial report for the six months ended 31 March 2021 to the Board for approval.

The Committee's consideration of the financial statements for the year ended 30 September 2020, which took place in the year under review, is discussed in the Audit Committee report for that year.

The Capital Requirements Regulation ('CRR') requires that a firm's Pillar III report is subject to the same review processes as its annual report and accounts. The Committee therefore reviewed the Group's Pillar III report, considering whether it included all material matters required by the CRR and its supporting requirements, and whether it formed a fair representation of these matters.

B6.4 External Auditor

The Committee is responsible for assessing the effectiveness of the external audit process, for monitoring the independence and objectivity of the external auditor and for making recommendations to the Board in relation to the appointment and remuneration of external auditors. The Committee is also responsible for developing and implementing the Group's policy on the provision of non-audit services by the external auditor, which was reviewed in the year.

AQR Review

During the year the FRC AQR team conducted a review of KPMG's audit of the Group's financial statements for the year ended 30 September 2020, with the Chair of the Committee engaging with the AQR team as part of this process.

The Committee has been briefed by the KPMG team on the progress of this review as it progressed, and the final report was received shortly before the date of signing of these accounts. The AQR raised no significant issues. The Committee was satisfied by this outcome and noted that all the matters raised by the AQR had already been communicated by the external auditor. These points had been considered by the Committee and discussed with the audit team, and therefore no further action was thought to be required.

Audit tendering

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the 'Order') requires that only the Committee can agree the fees and terms of service of the external auditors, initiate and supervise a tendering process or recommend the appointment of an external auditor to the Board following a tender process. The Group has complied with the requirements of the Order during the year.

KPMG were appointed as auditors, following a competitive tender process, with effect from the year ended 30 September 2016 at the AGM in February 2016. The financial year ended 30 September 2021 is the sixth reported on by KPMG. This is the first year for which Simon Ryder has served as engagement partner. Simon Clark, the previous engagement partner, has stepped down from the engagement in accordance with policy, having been involved with the Group's external audit for five years.

The Group is not subject to a legal requirement to undertake an audit tender until ten years have elapsed. However as the current financial year is the fifth for which the external audit was not subject to a formal tender process, the Committee is required to consider when it would be in the best interests of the Group and its stakeholders for the next tender to take place, and report its conclusions to shareholders.

Having considered the performance of the external auditors to date, the potential impacts on the Group's future requirements for external audit services of strategic, legal and regulatory developments, together with the resources required by any tender process, the Committee concluded that currently, on balance, it would not be beneficial to put the Group's external audit out to tender at an earlier date than required by law. The Committee therefore currently intends to conduct a tender process for external audit services for the year ending 30 September 2026 at a time that avoids any issues of independence for potential bidders.

The Committee will keep this decision under review in light of any changes in either strategic or regulatory requirements and in conjunction with its ongoing monitoring of external audit quality and will provide an update to shareholders annually in the Audit Committee Report.

Other than the legal requirements of the Order and the general constraints imposed by the current structure of the UK audit market, the Committee has not identified any factors which might restrict its choice of external auditor.

Audit effectiveness

The Committee has considered the effectiveness of the external audit for the year ended 30 September 2021 and the Group's relationship with the external auditor, KPMG, on an on-going basis, and has conducted a formal review of the effectiveness of the annual audit before commending this Annual Report to the Board. This review consisted of the following steps:

- A list of relevant questions was considered by senior management, who submitted their responses in writing to the Committee in advance of the meeting convened to consider the Annual Report
- The Committee members considered their experience of the audit process in advance of that meeting
- At the meeting the Committee discussed the results of the exercise with the senior financial management of the Group, without the external auditor present
- The Committee then addressed the evaluation, as appropriate, with the external auditors

The Committee was able to conclude, on the basis of this exercise and its experience over the year, that the external audit process remained effective, and that the auditor was independent and objective, up to the signing date of this report. A further review will be carried out following the completion of audit procedures on all Group companies and reported on in next year's Annual Report.

The effectiveness review addressing the conduct of the 2020 audit, undertaken at the time of approval of the Group's 2020 consolidated accounts, was updated once the external audit process for all Group companies had been completed. This affirmed the original conclusion, that the external audit was independent and objective and that the audit process was effective for that financial year.

In conjunction with the effectiveness review, before recommending the re-appointment of the external auditor, the Committee must consider whether they are able to provide the required service to the appropriate standard and are independent of the Group. To this end, the Committee considered whether KPMG's understanding of the Group's business, their access to appropriate financial services and regulatory specialists within their firm, both locally and nationally, and their understanding of the sectors in which the Group operates were appropriate to the Group's needs.

As part of this exercise the Committee also considered the transparency report presented by the external auditor, the FRC's AQR review of the Group's 2020 external audit and the regulator's most recent audit inspection review on KPMG, published in July 2021. The Committee noted particularly the FRC's concerns regarding KPMG's auditing of banks and discussed these findings and the steps being taken by the firm to address them with the audit partner and other KPMG representatives.

As a result of these exercises the Committee concluded that it would recommend to the Board that a resolution to reappoint KPMG as external auditor for the year ending 30 September 2022 should be proposed at the forthcoming AGM.

Independence policy

Both the Committee and the external auditor have safeguards in place to avoid any compromise of the independence and objectivity of the external auditor. The Committee considers the independence of the external auditor annually and the Group has a formal policy setting out measures to ensure that independence is preserved. The policy is designed to ensure that neither the nature of the service to be provided nor the level of reliance placed on the services could impact the objectivity of the external auditor's opinion on the Group's financial statements.

The current policy, which is consistent with the FRC Ethical Standard for auditors, limits the use of the external auditor to supply non-audit services to those services where the use of the external auditor is expected or mandated by legislation or regulation. The Committee must approve any engagement of the external auditor for non-audit work, except where the fee involved is clearly trivial. The policy also sets out rules for the employment of former employees of the external auditor and procedures for monitoring such persons within the organisation.

The Committee reviews, on a regular basis, the levels of fees paid to all major accounting firms and the nature of any ongoing relationships with the Group to identify any matters which might impact on those firms' ability to tender for the group audit at any future date.

Fees paid to the external auditor

Fees paid to the external auditor are shown in note 9 to the accounts. The 'other services' provided by KPMG include only services required to be provided by external auditors by legislation or regulation, including the review of half-yearly financial information and profit verification for regulatory purposes, and services expected to be provided by external auditors on capital market transactions, including work on the Group's green bond prospectus.

Audit fees of Group entities for the year have increased by 23% to £1,817,000 (2020: £1,468,000). This was a result of an increase in scope in certain areas and inflation in professional services fees more generally, particularly for more specialist resource.

The EU Audit Regulation (which is directly applicable in the UK for the time being) contains a 70% cap on non-audit fees for services provided to EEA Public Interest Entities ('PIEs'). For this purpose, non-audit services include audit-related services other than those services required by EU or national law such as reporting on interim financial information and regulatory profit confirmations, which are required by non-statutory regulations.

Non-audit fees paid to the auditor for the year ended 30 September 2021 should be no more than 70% of the average of the audit fees for 2018, 2019 and 2020. As this average was £1,327,000, the non-audit fee cap for the year was £929,000.

Fees paid to KPMG, the Group's external auditor, for non-audit services, as defined by the Regulation, during the year were £210,000 (2020: £168,000), well within the cap. All of these fees were for services related to the Group's audit, as described above.

The Group actively considers other providers for the type of non-audit services typically provided by accounting firms.

It maintains on-going relationships relating to tax, remuneration and regulatory advice with firms other than the external auditor's firm and considers discrete projects on a case-by-case basis.

The Group has engaged with a number of firms, including some outside the 'big four' largest audit firms, in considering appointments for assignments during the year, assessing each firm's appropriateness for the particular assignment before an appointment was made.

Fees paid to audit firms (excluding VAT), excluding the Group audit and related fees can be analysed as shown below.

	2021	2020
	£000	£000
Auditors – KPMG	**32**	-
Other big four firms	**2,780**	3,043
Other firms	**-**	-
	2,812	3,043

The Group maintains relationships with all of the major accounting firms and considers a variety of providers for this type of assignment.

B6.5 Internal Audit

The Committee is responsible for considering and approving the remit of the internal audit function, approving the internal audit plan, and ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. It also receives the functions reports and evaluates the adequacy of Group's responses to them. The Committee also ensures that the internal audit function has adequate standing and is free from management or other restrictions which may impair its independence.

The roles and responsibilities of Internal Audit are set out in the Internal Audit Charter which is reviewed and approved by the Committee on an annual basis. A copy of the Charter is available on the Group's website.

The function is led by an Internal Audit Director who reports directly to, and has a close working relationship with, the Chair of the Committee. She attends all meetings of Performance ExCo and ERC as an observer.

Operations

During the year, the Committee considered and approved the annual internal audit plan, which is based on an assessment of the key risks faced by the Group. Progress in respect of the plan is monitored throughout the year. With the approval of the Committee, the audit plan may be revised during the year, based on the ongoing assessment of the key risks or in response to the requirements of the Group.

The Internal Audit Director provides the Committee with regular assessments of the skills required to conduct the Plan and whether the internal audit budget is sufficient to recruit and retain staff, or to procure other resources, with relevant expertise and experience. The Committee assesses, on an ongoing basis, whether the internal audit function has sufficient and appropriate skilled resources to complete the plan and, on an annual basis, formally confirms that it is satisfied that these resources are appropriate.

During the year, several technical and specialist reviews have been co-sourced under an agreement with a third-party accounting firm on a subject matter expertise basis where it was deemed by the Internal Audit Director that such skills would complement and develop those of the internal team.

The Internal Audit Director met regularly throughout the year with the Chair of the Committee to discuss progress against plan, outstanding agreed actions, and departmental resourcing. Ahead of finalisation of the audit plan for the year ending 30 September 2022, the Chair of the Committee met with the Internal Audit Director to discuss audit planning priorities, key business risks and assess current resourcing.

All internal audit reports are circulated to the Board. Significant findings of internal audit reports and management's responses are discussed at meetings of the Committee throughout the year. Overdue actions graded medium or above are reviewed and challenged at both the Committee and the Risk and Compliance Committee.

Effectiveness

The Committee assesses the effectiveness of the internal audit function by reference to standards published by the Chartered Institute of Internal Auditors. In 2021, the Committee considered the output of an internal quality assessment prepared on this basis and concluded that the function was satisfactory.

An external quality assessment ('EQA') was last commissioned in 2018 to benchmark internal audit activities against best practice and peers. As a matter of policy, the Committee intends to commission an EQA at least every five years.

B7. Remuneration Committee

> **...reflective of very strong performance outcomes in a challenging year, enhancement of the Group's capital position and the continuing development of the Group within its markets...**
>
> **Hugo Tudor,** Chair of the Remuneration Committee

This report covers the activities of the Remuneration Committee for the year ended 30 September 2021 and sets out the remuneration details for the executive and non-executive directors of the Company. It has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended, and the principles of the Code.

This report consists of the Statement by the Chair of the Committee (B7.1) and the Annual Report on Remuneration (B7.2). The policy summary tables extracted from the detailed Remuneration Policy are reproduced for reference as Section B7.3.

The full Remuneration Policy is set out in the Annual Report and Accounts for the year ended 30 September 2019, a copy of which can be found at www.paragonbankinggroup.co.uk.

B7.1 Statement by the Chair of the Remuneration Committee

The information provided in this section is not subject to audit

Dear Shareholder

Business performance

Performance across the Group this year has been remarkable with underlying profit increasing by 61.8% which takes Group profits to a record level. Such an achievement is notable at any time, but is particularly so given the ongoing pandemic. Detailed analysis and commentary on performance can be seen throughout this report and particularly in the Chair of the Board's and the Chief Executive's reports in Sections A1 and A3. The balanced scorecard assessment shown later in this report records outstanding performance in all areas.

In addition to the strong financial performance achieved, the Committee noted in particular the outcomes from the future value and strategic development activities, including the record level of the mortgage pipeline and the embedded value generated from the mortgage book. I would also like to draw your attention to the launch of the Tier-2 Green Bond in March 2021 whereby Paragon became the first UK bank to issue a subordinated instrument in the sustainable finance space.

The proceeds of the bond are being allocated to green loans incentivising landlords to mitigate the impact of climate change.

Other green initiatives are being introduced in other lending areas. Similarly of note is the depth of the development finance pipeline which has increased by 74.1% from its 2020 level.

This outperformance across the Group is reflected in the annual variable remuneration outcomes of the executive directors and other employees. When considering variable remuneration awards the Committee noted that the Group's capital position was robust with the CET1 ratio at 15.4% after completing £37.8 million (including costs) of the £40.0 million share buyback announced at the time of the interim results and more detail on this is located in Section A4.3 of the financial results. The Group's approach to risk management was also recognised during the year by a material reduction in the PRA's assessment of its capital requirement, with the regulatory surplus rising to £410.1 million at 30 September 2021.

Variable pay earned in the year

Both executive directors are being awarded an annual bonus of 96.1% of the total opportunity, which is reflective of the delivery of very strong performance outcomes in a challenging year, enhancement of the Group's capital position and the continuing development of the Group within its markets in the current economic climate.

The PSP granted in December 2018 vested at 97.0% of the maximum award, similarly reflecting the strong performance over the performance period. This included TSR performance above the upper quartile of the peer group, resulting in full vesting for this element of the award (50% weighting). The Committee applied discretion to the EPS outcome, which represented 25% of the metrics. When the target and stretch levels were set, they assumed future reductions in UK corporation tax rates, which were subsequently reversed by the UK Government and also assumed that a lower proportion of the Group's taxable activity in 2021 would take place in Paragon Bank PLC than actually occurred.

The transfer of assets to Paragon Bank contributed materially to the capital surplus enhancement during the year, facilitating the second half share buy-back but led to a higher proportion of earnings arising in Paragon Bank which are subject to the banking tax surcharge. The EPS outcome was therefore adjusted.

The Committee determined that the management team should not be penalised for taking actions that are clearly in shareholders' best interests and consequently the underlying results should be adjusted to reflect these impacts. As a result the overall vesting level was 97.0% rather than 90.45% which would have been the vesting level if EPS on a reported basis had been used.

Group's remuneration philosophy

Our remuneration philosophy remains unchanged in seeking to recognise fairly the contribution of all employees, and whilst this report focuses on the executive directors, it can be seen from the comparison of 'Annual change in directors' pay with the average employee' table that the variable remuneration for all employees has increased this year, reflecting strong Group performance. During the year, as noted in last year's report, the Committee undertook a review related to the fair pay agenda which confirmed its view that the Group is a fair pay employer. A fair pay section has been specifically included in the report this year to provide additional context for shareholders.

Work of the Committee during the year

In 2021 no changes were made to the remuneration structures of the executive directors or senior management. During the current year the Committee has considered the gender pay gap reporting together with the CEO pay ratio analysis undertaken as part of the year end processes in 2020 and it will continue to consider executive director remuneration and the fair pay agenda in light of these analyses going forward. These differentials will be regularly monitored and should over time provide an additional benchmark for all employee remuneration packages.

Over the year discussions have been held with proxy advisors regarding remuneration matters. These meetings were attended by myself, the Chair of the Board and the People Director. I have also met with the People Forum to discuss both executive and all employee remuneration. Both of these interactions contributed to ensuring that the views and reflections of stakeholders are incorporated into the Committee's processes and reflections.

Regulatory regime

As previously anticipated in the Policy, as of 1 October 2021 the Group passed the asset threshold to be identified as a Level 2 bank under the remuneration regulations set by the PRA and FCA. As a result, some changes will be made to the remuneration arrangements of the executive directors, in particular the length of deferral period will be extended and there will be restrictions on the award of dividend equivalents; however, these changes will apply from next year (the financial year ending 30 September 2022 bonus and PSP).

In addition, over the course of this year the Committee has reviewed the remuneration arrangements for below board Material Risk Takers ('MRTs') to ensure these will meet the regulatory requirements going forward, making amendments as required.

Previously the Committee had primarily considered the impact of becoming a Level 2 bank on the packages of the executive directors. The Committee determined that a relatively small number of remuneration packages for MRTs below executive director level needed to be restructured, in the financial year ending 30 September 2022, to reflect the impact of the transition to Level 2. Embedding of the Level 2 requirements will continue throughout the year and be monitored and reviewed by the Committee on an ongoing basis.

Deferral of annual bonus, when in excess of £30,000, was introduced in the last financial year to a wider grouping of senior management than had previously been the case. This requirement is being maintained for the majority of MRTs in advance of needing to meet the regulatory requirement for deferral at the financial year ending 30 September 2022.

Remuneration for the year ending 30 September 2022

There are no changes to the structure of remuneration for the financial year ending 30 September 2022. Executive director salaries have been increased by 5% from 1 October 2021 in line with the wider workforce. Additionally, the total shareholder return ('TSR') comparator group, within the PSP, has been reviewed and amended to reflect changes in the financial services sector with the EPS measure being updated, as is usual, to reflect the current macro-economic environment. Further to ensure transparency the customer element of the risk metric has been removed as customer complaints are reflected within the customer metric.

Work of the Committee in 2022

A new policy will be put to shareholders at the AGM in 2023 with detailed considerations of any changes to the current policy being discussed by the Committee in the early part of the calendar year 2022 and followed up with conversations with shareholders and other stakeholders should those proposed changes be of a substantive nature. As part of that policy review the Committee will be considering how the new Policy should reflect the developing ESG strategy of the Group and reviewing the level of executive directors' pension supplements to take account of changing shareholder expectations in this area.

Conclusion

I hope that shareholders support how the Group has implemented its remuneration philosophy across all employees, including senior employees and the executive directors, and that it reflects the record performance of the business in the year ended 30 September 2021. I commend this report to shareholders and ask you to support the resolution to approve it which is being put to the AGM in March 2022.

Hugo Tudor
Chair of the Remuneration Committee
7 December 2021

B7.2 Annual Report on Remuneration

Contents:

The annual remuneration report includes:

Remuneration summary

The information provided in this section of the Directors' Remuneration Report is not subject to audit

Aligning remuneration to our strategy during the year ended 30 September 2021:

Strategic priorities and the success factors on which these priorities are based	**Translation into remuneration structures**	
Strategic priority: *success factor*	**Bonus**	**Performance share plan**
Capital management: *credit quality*	Risk measures and future value of new business	Risk assessment and EPS
Growth and specialisation: *margins*	Future value of new business and financial performance	EPS and relative TSR
Diversification and capital management: *liquidity*	Risk measures and financial performance	EPS, relative TSR and risk assessment
Sustainability: *sustainable earnings*	Financial performance	Relative TSR, EPS and risk assessment
Capital management and sustainability: *capital strength and efficiency*	Risk measures	Relative TSR and risk assessment
Capital management and sustainability: *cost controls*	Profit measures and personal objectives	EPS
Sustainability: *a customer and people focussed culture*	Personal objectives include ensuring good customer outcomes and support for Paragon's customers	From the July 2020 grant customer and people metrics were adopted Customer metrics focus on the views of customers across their Paragon lifecycle People metrics focus on the employee journey

B7.2.1 The Remuneration Committee, key responsibilities and advisers

The information provided in this section of the Directors' Remuneration Report is not subject to audit

Committee membership

The Committee during the whole of the year comprised three independent non-executive directors of the Company (being Hugo Tudor, Chair of the Committee and Alison Morris and Graeme Yorston) and the Chair of the Board (Fiona Clutterbuck) whose relevant experience is set out in Section B3.1.

Information on the number of Committee meetings held and the individual attendance of members is given in section B3.3.

None of the Committee members has any personal financial interest (other than as a shareholder) or conflict of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee is mindful of conflicts of interest arising in the operation of the Remuneration Policy and has measures in place to address this such as no individual being present when decisions are made on their own remuneration.

Key responsibilities

The Committee:

- Decides the Company's policy on executive remuneration, including pension rights and compensation payments of the executive directors
- Sets the remuneration for each of the executive directors, the Chair of the Board, the Company Secretary and all MRTs under the rules of the PRA/FCA which includes all members of the Executive Committee, the Internal Audit Director and CRO
- Review's workplace remuneration and related policies and the alignment of incentives and rewards with culture; and when setting the policy for executive director remuneration, takes into account those matters
- Considers the group-wide Internal Remuneration Policy for all employees (excluding executive directors) and considers and approves the identification of the Group's MRTs under financial services regulatory remuneration rules

Attendees

The CEO, People Director, CRO, General Counsel and Company Secretary, Director of External Relations, other non-executive directors (including the Chair of the Risk and Compliance Committee) and external remuneration advisors attend by invitation.

Advisors

During the year, the Committee considered advice from:

- Independent advisors – Deloitte LLP ('Deloitte') until May 2021 and PricewaterhouseCoopers LLP ('PwC') from that date
- The CEO, the Chair of the Risk and Compliance Committee, the People Director, the CRO and the Director of External Relations in determining remuneration for the year for executive directors and senior management

Independent advisors: additional information

- **Appointment process** – both Deloitte and PwC were appointed by the Committee following review processes and are members of the Remuneration Consultants Group and as such voluntarily operate under its Code of Conduct in relation to executive remuneration in the UK. This supports the Committee's view that all advice received during the year was objective and independent
- **Fees** – the total fees paid to Deloitte for advice to the Committee during the year amounted to £54,660 (including VAT) on a time and materials basis. Deloitte provided other professional services to the Group during the year including share scheme and tax advice, regulatory support, customer contact support, securitisation and co-sourced internal audit services

  The total fees paid to PwC for advice to the Committee during the year amounted to £61,920 (including VAT) on a part fixed fee and part time and materials basis. PwC provided other professional services to the Group during the year including regulatory support and support for the Group's IRB application
- **Connections to the Group** – the Committee is satisfied that both the PwC team and formerly the Deloitte team providing remuneration advice to the Committee does not, or in the case of Deloitte did not, have any connection with the Group, or any individual director, that may impair its independence and/or objectivity

  The Committee, when making this statement in reference to PwC, notes that Alison Morris (Chair of the Audit Committee) is a former partner at PwC. Alison, who left PwC in 2019, declared her interest at the time of PwC's appointment and did not participate in the selection interviews leading up to their appointment. The Committee is satisfied that its appointment of PwC was made in an independent and objective manner and that PwC's independence and objectivity remains unimpaired

Statement of voting at Annual General Meeting

The table below sets out actual voting in respect of the resolution to approve the Annual Report on Remuneration at the Company's AGM on 24 February 2021.

The table also details the outcome for the resolution to approve the Remuneration Policy at the AGM on 13 February 2020. Information on the Committee's response to this vote in 2020, which was deemed a significant vote against under the Code, can be found in the Annual Report and Accounts 2020 page 107.

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Annual Report on Remuneration	202,448,059	98.01%	4,110,792	1.99%	206,558,851	4,587,039
Remuneration Policy	157,352,402	74.33%	54,331,483	25.67%	211,683,885	3,082

B7.2.2 Directors' remuneration for the year ended 30 September 2021

The information provided in this section of the Directors' Remuneration Report has been audited

Single total figure of remuneration for executive directors

Year ended 30 September 2021	N S Terrington	R J Woodman	J A Heron[2]	Total
	£000	£000	£000	£000
Fixed remuneration				
Salaries and fees	599	377		976
Allowances and benefits	14	12		26
Role based allowance	140	90		230
Pension allowance	120	75		195
Total fixed remuneration	873	554		1,427
Variable remuneration				
Bonus	863	544		1,407
Dividend on vested deferred bonus	-	-		-
Share awards[1]	1,335	841		2,176
Total variable remuneration	2,198	1,385		3,583
Total	3,071	1,939		5,010

Year ended 30 September 2020	N S Terrington	R J Woodman	J A Heron[2]	Total
	£000	£000	£000	£000
Fixed remuneration				
Salaries and fees	563	354	69	986
Allowances and benefits	26	12	10	48
Role based allowance	88	56	-	144
Pension allowance	160	101	31	292
Total fixed remuneration	837	523	110	1,470
Variable remuneration				
Bonus	594	374	-	968
Dividend on vested deferred bonus	-	43	-	43
Share awards[1]	743	468	274	1,485
Total variable remuneration	1,337	885	274	2,496
Total	2,174	1,408	384	3,966

[1] The PSP value for the year ended 30 September 2021 has been determined using the average closing share price for the three months ended 30 September 2021 as an estimate. The actual value of the awards will not be finalised until the closing share price is known when the awards vest in December 2021 following the Preliminary Results announcement.

The share awards value for the year ended 30 September 2020 has been restated to reflect the market value of the shares under the PSP that vested on 3 December 2020 as at that date.

[2] J A Heron retired from the Board on 6 January 2020 and the remuneration shown in the 2020 table above is in respect of his service to that date. He received no additional remuneration for cessation of office.

Additional information in respect of the constituents of the above noted single figure tables for executive directors is provided below using the sections noted in the table as headings. The further information is included from the heading 'Allowances and benefits' immediately below until, but not including, 'Chair of the Board and non-executive director fees'.

Allowances and benefits

Included within this total in the single figure tables are private health cover and a company car allowance (£10,000 to £12,000). Also included is a reimbursement from the Company in respect of certain travel costs incurred in connection with the performance of executive director duties which constitutes a taxable benefit in kind. The amounts included represent the travel payments HMRC treats as taxable together with an allowance to cover the tax. The Group provides the amount required to cover the tax liability. This amount will vary with the amount of travel undertaken by the executive director.

Role based allowance ('RBA')

This allowance was introduced following the AGM in 2020. The fixed pay allowance is paid quarterly in shares and released over five years in equal tranches. The RBA is not subject to performance conditions.

Pension allowance

Both Nigel Terrington and Richard Woodman received a cash allowance in lieu of pension of 20% of salary. Newly appointed executive directors will receive a maximum pension contribution of 10% of salary, which is the same maximum level as for the majority of the workforce who are members of the Group's defined contribution pension scheme.

The Committee considers that the executive directors' pension contribution is aligned to the workforce average contribution as well as reflecting other employees whose service to the Group is of equivalent longevity who were members of the Paragon Pension Plan (the 'Plan'). The Plan was restructured during the year to enable de-escalation of the risks associated with a defined benefit plan together with continuity of future accrual for employees and closer alignment of pension contributions across the Group. Employees within the Plan have from August 2021 received an employer contribution of 25% of salary. A small number of former members of the Plan receive a cash supplement of 45% of salary for having left the Plan.

The Committee reiterates its commitment made last year to reviewing the executive directors' pension contributions as part of the triennial policy review and will take into account the changing stakeholder landscape both internal and external when considering this matter.

Bonus

Bonus opportunity during the year was, in line with policy, 150% of salary.

In respect of the annual bonus for the year ended 30 September 2021:

- A bonus of 96.1% of maximum opportunity was awarded to each of the executive directors
- Deferral will be 50% of amounts over £50,000 for three years and is subject to malus and clawback

How the bonus was determined and is split between cash and deferred shares is as shown below:

Executive director	Financial performance	Future value and strategy	Risk	Personal performance	Total	Total	Cash	Share value
						£000	£000	£000
N S Terrington	30.0%	28.6%	17.5%	20.0%	96.1%	863	456	407
R J Woodman	30.0%	28.6%	17.5%	20.0%	96.1%	544	297	247

The Committee determined that the formulaic outcomes under the bonus framework were fair and appropriate in light of the very strong financial and non-financial performance and exemplary leadership shown over the period, therefore it was decided that no discretion should be applied to outcomes.

Outturn was based on performance measures as detailed in the assessment below:

Balanced scorecard assessment

Measure	Weighting	Threshold	Target	Maximum	Actual	Outcome
Financial performance	**30.0%**					**30.0%**
Operating profit	12.0%	£132.9m	£139.9m	£148.3m	£194.2m	12.0%
RoTE (underlying)	9.0%	9.9%	10.9%	12.1%	14.7%	9.0%
NIM progression	3.0%	+0bp	+3bp	+7bp	+14bp	3.0%
Cost: income ratio	3.0%	45.2%	44.4%	43.5%	41.7%	3.0%
CET1 (adjusted for buybacks)	3.0%	14.8%	15.4%	16.0%	16.0%	3.0%

Measure	Weighting	How measured	Outcome
Future value and strategy	**30.0%**	Qualitative assessment by the Remuneration Committee of:	**28.6%**
Development activities	7.5%	Digital systems launches and enhancements such as: - Commercial Lending portal and auto decisioning - Embedding Mambu operating platform for Savings - Single payment platform - Surveyors' digital system IRB phase 2 application was submitted to the regulator on time	6.8%
Pipeline	7.5%	Record levels for buy-to-let mortgages of £1.01 billion and development finance of £298.6 million	7.5%
Embedded value	7.5%	Net loan book increases exceeding plan by 80% with stronger than planned originations and enhanced retention while widening margins	6.8%
Liability management	7.5%	Launch of the first UK Green Tier-2 Bond Refinancing of Paragon Mortgages (Nos. 11, 13, 14 and 15) PLC TFSME £1.84bn drawn as planned Savings grew to £9.3 billion Warehouse facility renegotiated	7.5%
Risk	**20.0%**	Qualitative assessment by the Remuneration Committee of:	**17.5%**
		Further embedding of the Group's principal risk framework Portfolio performance throughout the pandemic (evidenced through arrears and losses) was strong Group's capital management framework was robust which led to reduced regulatory requirements	
Personal performance	**20.0%**	Qualitative assessment by the Remuneration Committee of:	**20.0%**
		Individual targets as detailed below for each director:	100.0%

	Individual targets	Actual performance
Nigel Terrington	Strong leadership to deliver the Group's business plan and financial performance, upholding our values and always delivering good customer outcomes	Record profit before tax of £213.7 million increased by 80.5% from 2020 Savings expansion to £9.3 billion with margin enhancements of 14bp The Group regularly surveys its intermediaries and customers, and levels of satisfaction were broadly maintained from 2020 despite the ongoing pandemic and with significant levels of virtual working by employees. Surveys showed that: • 91% of intermediaries were satisfied with the ease of obtaining a response from the Group (2020: 91%) • 89% of savings customers would 'probably' or 'definitely' take a second product (2020: 90%)
	Review the Group's strategy in light of changing capital availability and requirements	Capital benefits from securitisation refinancing routed back to shareholders through a PRA approved buyback Continued proactive assessment of a number of potential opportunities to diversify the Group's strategy
	Continue to focus the Group's presence as a leading UK specialist lender in its core markets of buy-to-let, development finance and SME lending	Strong buy-to-let pipeline at year end £1.01 billion Commercial Lending division originations up 22.9% and strong year end pipeline in place in development finance
	Continue with technology development to digitalise the business for our customers, with improved service delivery, faster decision making and improved cost efficiencies	The technology roadmap for core systems has delivered significant progress in the period including: • Asset finance portal and auto decisioning launched • Mambu embedded as a core operating system supporting the savings platform relationships • Single payment platform utilising cloud based technology for Group payments was successfully implemented to provide enhanced levels of operational resilience • Surveyors' system enhanced and embedded providing time and cost saving efficiencies
	Continue to develop the Group's savings strategy, expanding the addressable market and over time, utilising technology, including open banking, to broaden the customer reach	Onboarded Raisin (a digital savings platform), facilitating the launch of products with Aviva, AJ Bell and Willis Owen Expanded the Revolut offering to a broader range of customers Launched SME deposit-taking
	Focus on rebuilding profitability measured by RoTE back towards 15% or above in the medium term	Underlying 14.7% achieved for the year, reported RoTE 16.2%
	Further develop the Group's risk management framework to continuously improve resilience, deliver good customer outcomes and embed the risk culture	Significant progress made through investment in technology, cyber security, change governance, business continuity planning, supplier assurance and data governance to increase the Group's overall resilience Operational resilience framework in place and aligned to the ERMF
	Continue to build a succession plan pipeline for Executive Committee roles	Appointment of four senior roles, of which 75% were female, reporting directly into ExCo members to support the senior talent pipeline Third cohort of high performers commenced the senior leadership development programme

	Individual targets	Actual performance
Richard Woodman	Strong leadership to deliver the Group's business plan and financial performance, upholding our values and always delivering good customer outcomes	Outperformance against all aspects of corporate plan; margins, volumes, cost efficiency and credit performance
	Ensure the Group's funding position and access to TFSME allows it to support our customers and provide credit to the economy	Full TFSME usage accessed (£2.75bn) following successful securitisation refinancing and collateral management programme SME lending supported through CBILS, BBLS and RLS
	Prioritise and embed IRB to boost the Group's risk capability and longer term capital efficiency	Strong progress made on IRB with Phase 2 submitted to the PRA Development finance slotting model embedded
	Maintain highly prudent capital, liquidity and funding buffers to allow the Group to support its customers and other stakeholders in stress	Capital position enhanced through securitisation re-financing programme and reductions in regulatory requirements from the PRA following a detailed ICAAP process Collateral management enhances liquidity options, and the liquidity position has been managed at or above the target operating range throughout the year Capital benefits from securitisation refinancing routed back to shareholders through a PRA approved buyback
	Further develop the Group's thinking on the impact from climate change and embed the management of climate related risks within the Group's strategic plans and risk appetites	Issued Tier-2 bond replacement as a green bond, with an associated green bond framework demonstrating that sustainability and climate change are at the top of the Group's agenda Sustainability Committee established and launched in the year
	Oversee the Group's transition away from LIBOR and provide monthly updates to the Board in terms of project governance, conduct risk oversight and treasury management	All business lines have transitioned to non-LIBOR alternatives or are well progressed to achieve this ahead of the required deadline The Group's largest asset portfolio migrated to a term SONIA basis in June / July and main liability elements resolved through securitisation refinancing
	Continue to provide oversight and management of the investor relations programme	Effective shareholder and analyst interactions held throughout the year given the switch to virtual engagements Interim reports and transparency of (in particular) the Group's impairment approach positively received

Dividend on vested deferred bonus

This section details the accrued dividends to the date of exercise paid on deferred bonuses which were exercised during the relevant year. Under the policy, dividends will accrue to the point of vesting on deferred share awards made in respect of the year ended 30 September 2016 and thereafter.

Other information

In 2021 Sharesave awards vested for Nigel Terrington and Richard Woodman. The SAYE is an all-employee share plan with the option price for the 2016 grant of £2.4944 per award. SAYE awards are not subject to tax or national insurance and the option price is funded by monthly saving from salary. The option price is based on a 20% discount to market price at grant equating to a £7,000 benefit in respect of this grant for each director. This has not been included in the above table, in order to ensure that year on year comparison of the single figure table is consistent as SAYE exercises are not annual occurrences.

Share awards: Paragon Performance Share Plan

Awards vesting in respect of the year ended 30 September 2021

Awards granted in December 2018 under the Group's PSP are subject to performance conditions measured over the three financial years ended 30 September 2021.

Performance condition	Weighting	Threshold vesting for 25% of maximum award	Maximum vesting	Actual performance	Vesting outcome
Relative TSR	50.0%	Median performance (being: (10.8%))	Upper quartile performance (being: 24.8%)	Upper quartile performance (being: 27%)	100.0%
EPS	25.0%	60 pence	68 pence or more	68.1 pence (adjusted)	100.0%
Risk	25.0%	n/a	n/a	88%	88.0%
Total as a % of maximum award					**97.0%**
Total as a % of salary at grant					**194.0%**

There is straight-line vesting between the threshold and maximum for the TSR and EPS conditions and no reward below threshold performance.

The target and stretch position for the EPS vesting condition were based upon anticipated reductions in corporation tax rates that were in turn reversed by the Government. Further, to facilitate the refinancing of the legacy securitisations and deliver the associated capital benefits, a higher proportion of Group earnings arose in Paragon Bank, attracting a higher tax surcharge.

The transfer of assets to Paragon Bank contributed materially to the capital surplus enhancement during the year, facilitating the second half share buyback but led to a higher proportion of earnings arising in Paragon Bank which are subject to the banking tax surcharge.

The Committee determined that the management team should not be penalised for taking actions that are clearly in shareholders' best interests and consequently the underlying results should be adjusted to reflect these impacts. As a result the EPS element of the grant vested at 100% rather than the 73.8% that would have arisen on a reported basis.

The risk metric measures the Group's performance against six equally weighted risk categories – material regulatory breaches, customer service, management of liquidity and capital risk, credit losses against risk appetite, management of conduct risk and material risk events over the performance period. The performance of the Group against these metrics was independently assessed by the Committee, supported by the Chair of the Risk and Compliance Committee and the Group's CRO, and the outcome reflects the strong level of performance over this period.

Performance in all risk areas discussed and reviewed by the Committee was strong throughout the performance period, in particular the Committee noted that during the period:

- There had been no material regulatory breaches
- The capital base was robust and regulatory compliant
- Credit performance has been strong across all portfolios
- Complaints, the main measure for customer service, were within risk appetite for the majority of the period with customer service levels being maintained admirably during the pandemic
- Operational risk outcomes were reflective of the Group's exemplary resilience shown in the pandemic and the improvements made to the Group's operational resilience framework over the period

Vesting was also subject to the Committee's determination that individual performance and the underlying financial performance of the Group were satisfactory given the level of vesting. In respect of both these points the Committee concluded that the vesting level was appropriate for all participants.

Details of the shares which will vest in December 2021, following the announcement of the Preliminary Results, are set out below. The table also shows that the vesting value in 2021, determined as noted below, reflected a 24% increase in the share price between grant and vesting.

	Total shares granted	Grant basis	Vesting outcome	Vested shares	Share price[1]	PSP value[2]	Impact of share price appreciation
		£			£	£000	£
2018 PSP awards							
N S Terrington	227,156	4.43	97.0%	220,341	5.4926	1,335	234,129
R J Woodman	143,059	4.43	97.0%	138,767	5.4926	841	147,451
	370,215						**381,580**

[1]The PSP value has been estimated using the average closing share price for the three months ended 30 September 2021. The actual value of the awards will not be known until the awards vest in December 2021, as it will be based on closing share price at that date.

[2]In accordance with the rules of the PSP, participants are entitled on exercise to additional value equal to the dividends that would have been paid on vested shares in respect of dividend record dates between the grant date and vesting date. Accordingly, the share award values also include £0.5670 per vested share in respect of such dividends.

Awards which vested in respect of the year ended 30 September 2020: impact of the share price on vested awards

The final vesting value of the awards which vested in respect of the 2017 PSP showed a 5% decline from date of grant. The Committee did not apply discretion on the vesting outcome. This table has been restated from that shown in the 2020 Annual Report and Accounts using the closing price on the date of vest. Previously the average closing share price for the three months ended 30 September 2020 had been used.

	Total shares granted	Grant basis	Vesting outcome	Vested shares	Share price[1]	Impact of share price depreciation[3]
		£			£	£
2017 PSP awards						
N S Terrington	205,192	4.7614	72.0%	147,738	4.5140	(36,550)
R J Woodman	129,227	4.7614	72.0%	93,043	4.5140	(23,019)
J A Heron[2]	109,401	4.7614	72.0%	54,547	4.5140	(13,495)
Total	**443,820**					**(73,064)**

[1]The PSP value has been restated based on the market value on the date of vesting being 3 December 2020.

[2]The vested shares for J A Heron's 2017 PSP awards shown above have been calculated at the pro-rata amount.

[3]As part of the December 2017 PSP award, each executive director was granted a tax-qualifying option under the Company Share Option Plan ('CSOP') which vested at 4,186 shares at a per share exercise price of £4.7776. The CSOP option is subject to similar performance conditions to the main PSP award. If a CSOP option is exercised at a gain, the number of shares the director will receive under the PSP will be reduced by the same value, to ensure that the total pre-tax benefit is not increased by the grant of the CSOP options. Therefore, the value of each award, in aggregate, is equivalent to that of a PSP award and the CSOP options have been disregarded in determining the value.

Awards granted during the year ended 30 September 2021

On 11 December 2020 the following awards were granted, as nil-cost options, under the PSP with a face value of 180% of salary in line with Policy.

Executive director	Salary	Percentage grant	Face value of grant	Share price[1]	Number of shares
	£000		£000	£	
N S Terrington	599	180%	1,078	4.554	236,661
R J Woodman	377	180%	679	4.554	149,046

[1]Based on the average closing mid-market price of the Company's shares on each of the five dealing days following the announcement of the Company's results for the year ended 30 September 2020, being the price used to determine the number of shares in accordance with the Directors' Remuneration Policy.

The PSP awards granted in December 2020 are subject to the following performance conditions, with a performance period of three years, from 1 October 2020, ending on 30 September 2023. The executive directors' awards, which are tested over the three-year performance period, will vest after five years, following the end of a two year holding period.

Performance measure	Weighting	Threshold vesting for 25% of maximum award	Maximum vesting
Relative TSR	25.0%	Median performance	Upper quartile performance
Basic EPS	25.0%	58 pence	66 pence or more
Risk	25.0%	50% weighting on an assessment from the CRO of the six key elements of the Group's risk appetite: regulatory breaches, customer service, conduct, operational, capital and liquidity and credit losses 50% weighting on a strategic risk assessment to reflect the management of risk with regard to the delivery of the Group's medium-term strategy	
Customer	12.5%	Consideration will be given to (i) customer insight feedback on key product lines, (ii) customer complaints relative to risk appetite levels and (iii) average overturn rate for customer complaints relative to the FOS's reported rates	
People	12.5%	Consideration will be given to (i) employee engagement, (ii) voluntary attrition compared to industry averages and (iii) gender diversity of senior management	

There is straight-line vesting between threshold and maximum and no reward for below threshold performance. In addition, prior to any awards vesting, the Committee must be satisfied that the individual performance and underlying financial performance of the Group are satisfactory given the level of vesting.

Relative TSR measure

The comparator group for the purposes of the relative TSR condition is:

Amigo Holdings PLC	**Arrow Global Group PLC**	**Barclays PLC**
Close Brothers Group PLC	**Funding Circle Holdings PLC**	**Lloyds Banking Group PLC**
Metro Bank PLC	**NatWest Group PLC**	**OSB Group PLC**
Provident Financial PLC	**Secure Trust Bank PLC**	**S&U PLC**
Virgin Money UK PLC		

Chair of the Board and non-executive director fees

	Year ended 30 September 2021			Year ended 30 September 2020		
	Fees	**Benefits[1]**	**Total**	Fees	Benefits[1]	Total
	£000	**£000**	**£000**	£000	£000	£000
Chair of the Board						
F J Clutterbuck	**255**	**14**	**269**	255	14	269
Non-executive directors						
P J N Hartill[2]	**-**	**-**	**-**	87	-	87
P A Hill[3]	**76**	**-**	**76**	-	-	-
A C M Morris[4]	**85**	**-**	**85**	44	-	44
B A Ridpath	**65**	**-**	**65**	65	-	65
H R Tudor[5]	**95**	**-**	**95**	87	-	87
F F Williamson	**21**	**-**	**21**	85	-	85
G H Yorston	**65**	**-**	**65**	65	-	65
Total	**662**	**14**	**676**	688	14	702

[1]F J Clutterbuck receives a company car allowance and is eligible for private health cover on an individual or family basis in the same way as the executive directors

[2]P J N Hartill resigned from the Board on 30 September 2020, ceased to be Audit Committee Chair on 10 June 2020 and Senior Independent Director on 23 July 2020

[3]P A Hill was appointed to the board on 27 October 2020

[4]A C M Morris was appointed to the Board on 26 March 2020

[5]H R Tudor became Senior Independent Director on 23 July 2020

Payments to past directors

J A Heron retired from the Board on 6 January 2020. He remains entitled, under the usual 'good leaver' provisions, to awards received under the PSP and Deferred Share Bonus Plan ('DSBP') when a director. In respect of the PSP, these will vest, subject to performance, on a pro-rata basis (from the date of grant to the date of cessation of employment) at the end of the relevant vesting period and for the DBSP these will vest in full once the vesting period has elapsed. Both PSP and DSBP remain subject to malus and clawback provisions.

Consequently, for the PSP grant that is due to vest in December 2021 (the 2018 grant) J A Heron will receive 41,589 shares (being his original grant of 121,117 PSP awards vesting at 97.0% and pro-rated to his date of leaving).

Payments for loss of office

No payments for loss of office were made during the year ended 30 September 2021.

Directors' share interests

The interests of the executive directors in the shares of the Company at 30 September 2021 (including those held by their connected persons) were:

	N S Terrington	R J Woodman
	Number	Number
Unvested awards subject to performance conditions		
PSP	549,090	345,809
Unvested awards not subject to performance conditions		
DSBP	225,078	139,658
Sharesave	4,245	4,245
Total unvested awards	778,413	489,712
Vested but unexercised awards		
PSP[1 2]	510,169	389,356
DSBP	254,780	52,259
Total vested but unexercised awards	764,949	441,615
Shares beneficially held[3]	841,816	271,408
Total interest in shares	**2,385,178**	**1,202,735**

Awards exercised in the year		
PSP	-	-
DSBP	-	-
Sharesave[4]	12,026	12,026
Total awards exercised in the year	**12,026**	**12,026**

Awards under the PSP and DSBP schemes noted above were granted in the form of nil cost options.

[1] As part of the December 2017 PSP award, each executive director was granted a tax-qualifying option under the CSOP which vested at 4,186 shares at a per share exercise price of £4.7776.
If a CSOP option is exercised at a gain, the number of shares the director will receive under the PSP will be reduced by the same value, to ensure that the total pre-tax benefit is not increased by the grant of the CSOP options. Determining the number of awards that will be exercised is dependent on the share price at date of exercise and, as this is not certain until that date, the above table includes the 2017 award at the maximum number of PSP awards that could be exercised.

[2] For the purposes of the table above the awards granted in December 2018, to Nigel Terrington and Richard Woodman are assumed to be vested but unexercised in respect of the percentage which it is estimated will vest, 97.0%, and to have lapsed in respect of the balance.

[3] Shares beneficially held include shares obtained under the RBA, being for Nigel Terrington 28,521 shares and for Richard Woodman 18,331 shares. These shares are not subject to performance conditions but are subject to restrictions related to disposal.

[4] The SAYE awards were exercised by Nigel Terrington on 30 September 2021 and Richard Woodman on 18 August 2021. The SAYE is an all-employee share plan and the option price for the 2016 grant was £2.4944 per award. The closing share price on the date of exercise was £5.46 for Mr Terrington and £5.633 for Mr Woodman. SAYE awards are not subject to tax or national insurance.

The interests of the Chair of the Board and the non-executive directors at 30 September 2021, which consist entirely of ordinary shares, beneficially held, were as follows:

	2021
F J Clutterbuck	**8,372**
P A Hill	**2,459**
A C M Morris	**4,000**
B A Ridpath	**4,358**
H R Tudor	**70,000**
G H Yorston	**7,517**

As at 3 December 2021, the last practicable date prior to approving this Report, the Company has not been advised of any changes to the interests of the directors and their connected persons as set out in the tables above.

Share ownership guidelines

Executive directors are encouraged to hold a minimum number of shares in the Company with a value of 200% of their salary, calculated at 31 December each year. The shares which count towards the aggregate shares held by each director for the purposes of this calculation are:

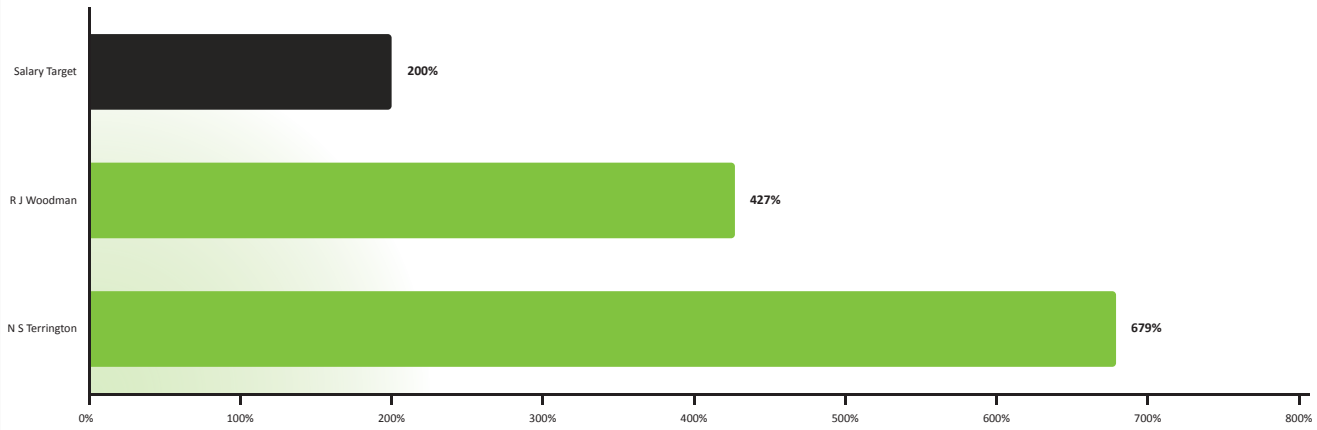
1. Unexercised but vested share awards
2. Share awards with no performance conditions attached such as the DSBP and RBA and share awards with performance conditions no longer attached such as PSP awards once the performance conditions have been tested
3. Shares purchased with own funds where those shares are unconnected to a share award exercise
4. Other beneficially owned shares such as exercised and retained share awards and shares held in the name of spouses etc

The valuation is calculated on a net of income tax and national insurance basis where relevant.

The chart below compares the executive directors' holdings at 30 September 2021 to those required by the guidelines, expressed in value terms as a percentage of salary.

Directors' shareholding guidelines

30 September 2020



At 30 September 2021, the holdings of executive directors were in accordance with guideline levels.

Post-employment shareholding requirement

With effect from the approval of the Remuneration Policy in February 2020 the Committee adopted a post-cessation shareholding requirement. This requires that for two years following cessation of employment, based on their immediately pre-cessation salary, an executive director must retain such of their 'relevant' shares as have a value (as at cessation) equal to the shareholding guideline, or (if lower) the number of shares actually held at the date of departure.

'Relevant' shares are shares acquired under items 1 and 2 above. They may also include shares noted under item 4 above if such shares were originally derived from a share exercise. It does not include shares acquired under item 3 above.

No former directors are subject to these guidelines.

B7.2.3 Application of remuneration policy for the year ending 30 September 2022

The information provided in this section of the Directors' Remuneration Report is not subject to audit.

Overview

Any changes to the application of the Remuneration Policy for the year ending 30 September 2022 are, as noted above, expected to be limited.

Executive directors

Base salary

The salaries of the executive directors were increased by 5%, in line with the wider workforce, from 1 October 2021.

	Salary with effect from	
	1 October 2021	1 October 2020
	£	£
N S Terrington	**628,695**	598,754
R J Woodman	**395,945**	377,087

Allowances and benefits and pension contributions

No change from the stated policy.

Annual bonus

In line with the policy, the bonus opportunity for the financial year 2022 will be 150% of salary.

The Committee has determined that performance will be assessed against a balanced scorecard of measures consisting of: financial performance (30%) including core profit and RoTE, together with a range of other metrics derived from the Group's financial plans; future value and strategic development (30%); risk management (20%); and personal performance (20%). The two core measures of underlying profit and underlying RoTE comprise 70% of the financial performance award, but the Committee annually determines the appropriate secondary measures by reference to the strategic focus for the year. For 2022 the secondary measures will continue to be underlying NIM progression, CET1 and cost:income ratio.

The Committee has chosen not to disclose, in advance, the targets which apply to these measures as it considers them to be commercially sensitive. Retrospective disclosure of the targets and performance against them will be set out in next year's Annual Report on Remuneration except to the extent that any measure / target remains commercially sensitive.

Deferral requirements will reflect the regulatory requirements for a Level 2 bank in the year ending 30 September 2022 (as detailed in the Policy Summary at the end of this report).

PSP awards

PSP award levels for executive directors are 180% of base salary. The performance conditions and weightings (in respect of TSR, EPS, risk and customer and people metrics), individual performance and Group underlying performance requirements are as noted below.

Performance measure	Weighting	Threshold vesting for 25% of maximum award	Maximum vesting
Relative TSR	25.0%	Median performance	Upper quartile performance
Basic EPS	25.0%	63.0 pence	72.0 pence or more
Risk	25.0%	50% weighting on an assessment from the CRO of the five key elements of the Group's risk appetite: regulatory breaches, conduct, operational, capital and liquidity and credit losses 50% weighting on a strategic risk assessment to reflect the management of risk with regard to the delivery of the Group's medium-term strategy	
Customer	12.5%	Consideration will be given to (i) customer insight feedback on key product lines, (ii) customer complaints relative to risk appetite levels and (iii) average overturn rate for customer complaints relative to the FOS's reported rates	
People	12.5%	Consideration will be given to (i) employee engagement, (ii) voluntary attrition compared to industry averages and (iii) gender diversity of senior management	

The TSR grouping has been updated to reflect changes in the Group's listed peers and consists of the companies below.

Amigo Holdings PLC	**Arbuthnot Banking Group PLC**	**Barclays PLC**
Close Brothers Group PLC	**Funding Circle Holdings PLC**	**LendInvest PLC**
Lloyds Banking Group PLC	**Metro Bank PLC**	**NatWest Group PLC**
OSB Group PLC	**Provident Financial PLC**	**Secure Trust Bank PLC**
S&U PLC	**Virgin Money UK PLC**	

The EPS metric has been updated to reflect the current macro-economic climate whilst maintaining an appropriate level of stretch compared to the Group's financial forecasts. The Group's Covid response saw impairments inflate materially in 2020, with a correction then seen in 2021. When considering the degree of stretch in the targets, the Committee considered them both in relation to the internal targets and to a normalised figure for the year ended 30 September 2021 of 55.1p, based on the 2019 cost of risk, to take account of the unusual pattern of impairments in the financial years ended 2020 and 2021. On this basis, the Committee was satisfied that the targets represent a very strong performance if achieved and are therefore appropriately stretching.

The risk and customer metrics have been updated to ensure that customer complaints are only counted within the customer metric.

There is straight-line vesting between threshold and maximum for the TSR and EPS measures and no reward for below threshold performance. In addition, prior to any awards vesting, the Committee must be satisfied that the individual performance and underlying financial performance of the Group are satisfactory given the level of vesting.

Chair of the Board and non-executive director fees

The Board reviewed and approved an increase to non-executive director base fees by £5,000 per annum, effective from 1 October 2021, to maintain alignment to the market. No other changes were made in respect of non-executive director or Chair of the Board's fees.

	Fee with effect from	
	1 October 2021	1 October 2020
	£000	£000
Chair of the Board's fee	**255**	255
Base fee for non-executive directors	**70**	65
Additional fee for Senior Independent Director	**10**	10
Additional fee for chairs of committees[1]	**20**	20

[1]The additional fee for chairing a committee is currently payable to the Chairs of the Remuneration, Audit, and Risk and Compliance Committees but not the Nomination Committee and would be payable for the chairing of such additional committees as might be authorised by the Board.

B7.2.4 Other information

The information provided in this section of the Directors' Remuneration Report is not subject to audit.

This section provides various items of information related to remuneration within the Group. This includes information that shows the overall approach to all employee remuneration at the Group and how directors' remuneration aligns and compares with other employees and shareholders.

Fair pay

Fair pay: groupwide remuneration philosophy

Paragon is committed to rewarding all of its employees fairly for their contribution, whilst ensuring they are motivated to always deliver the best outcomes for its customers. The Group's approach to remuneration reflects its culture, vision and values and supports its purpose whilst being aligned to the long term interests of the Group and helping to deliver fair customer outcomes.

This commitment to fair pay is reflected in Paragon's:

- Support since 2016 for the minimum wage payable to all employees being that stated by the Living Wage Foundation (which from 1 November 2021 will be £19,500 per annum)
- Payment of PRP to around 85% of the workforce
- Share schemes being available at both an all employee and senior management level which help to align employees' interests with shareholders
- Alignment between executive pay and that of other senior managers as well as other employees
- People Forum providing an additional arena for discussion and feedback on executive and all employee remuneration structures

Further information on the above points can be found in the remainder of this section. In addition, the commitment to fair pay is reflected in Paragon's commitment to various sustainability related matters which support and enhance fair pay and the remuneration philosophy and are detailed in Section A6.

How our pay principles aligned to the Code during the year ended 30 September 2021:

Principle	Application	Example
Clarity	The executive director and Group remuneration policies are clearly communicated to directors and all employees The Remuneration Committee Chair and Chair of the Board regularly consult with our major shareholders as part of our commitment to a transparent and open relationship	The Remuneration Report in this document is available to all employees as is the group-wide Internal Remuneration Policy Details on the application of the Directors' Remuneration Policy, including incentive outcomes for the current year as well as proposed performance measures and targets for future years, are clearly set out in this report. The internal policy details the available remuneration structures which are aligned across the Group and consist of salary; pension; variable cash bonuses; share schemes and benefits Discussion on executive remuneration and how it aligns to the workforce forms part of the regular People Forum discussions with the Committee Chair
Simplicity	Straightforward remuneration structures apply to all levels of the Group's employees The Committee has sought to ensure that the Directors' Remuneration Policy and outcomes under the Policy are easy to understand for both participants and shareholders	
Proportionality	Bonus awards reflect annual performance and PSP awards reflect performance over the longer term with performance measures and targets clearly linked to strategy The Committee also has the discretion to override formulaic outturns to ensure outcomes do not reward poor performance	The links between awards and delivery of strategy and performance are shown in the table above Performance conditions require a minimum level of performance to be achieved before any pay-out under variable pay schemes is considered
Predictability	Minimum, target and maximum levels of award for executive directors are shown in this report within the summary of our Remuneration Policy	See Section B7.3 for the summary policy and the full policy in the 2019 Annual Report and Accounts
Alignment to culture	Paragon's strong culture is reflected throughout its pay structures through consideration of the demonstration of the Group's values. This applies when determining incentive outcomes for all employees as well as through its commitments to EDI policies and the Living Wage Foundation The Remuneration Policy is fully aligned with our pay principles	Demonstration of the Group's values underpins our variable incentive frameworks, in addition 25% of PSP awards for executive directors and other senior managers are assessed against Customer and People metrics Paragon has paid the Living Wage Foundation rate for a number of years as part of its commitment to workforce equality and is committed to reducing its gender pay gap (see the remainder of this Section B7.2.4 for more details and Section A6)
Risk	The pay arrangements for executive directors are consistent with and promote effective risk management through alignment with the Group's risk appetite Risk conditions are included within variable remuneration arrangements to align with regulatory expectations and shareholder interests All members of the Remuneration Committee are also members of the Risk Committee, ensuring that risk is appropriately taken into account when determining remuneration policy and its outturns	The risk conditions in the annual and long term incentives are tested annually by the Committee. The Committee has discretion to override formulaic outcomes Both annual bonus and PSP outcomes are subject to malus and clawback provisions

How the Committee considers the views of all employees

The People Forum considers the relationship between executive remuneration and pay and reward across the Group on a regular basis. Discussions with the Chair of the Committee on executive remuneration and remuneration across the wider workforce took place during September 2021 and will be a regular part of the Forum's calendar in future years as well.

Additionally, employees have the opportunity to make comments on any aspects of the Group's activities through surveys and the views of employees are taken into account by Human Resources. One of the duties of the People Director is to brief the Board on employee views and, as a regular invitee to committee meetings, this also helps to ensure that decisions are made with appropriate insight to employees' views.

How all employee remuneration is aligned with stakeholders' interests

Within the Policy Summary (Section B7.3) information is provided on how the remuneration packages for executive directors' link to strategy; how they operate; maximum opportunity and any performance conditions. Noted below is the equivalent information for all employees in respect of base salary, benefits and retirement benefits. The purpose and link to strategy that is detailed for the executive directors' remuneration components is the same for all employees and is consequently not repeated here. Further the following points should be noted:

- **RBA** – in the year ended 30 September 2021 RBA were only available to executive directors
- **Sharesave** – opportunities to participate in Sharesave are the same for all employees and therefore the information provided in the executive director table equally applies to all employees. Paragon's Sharesave scheme has operated for many years, usually on an annual basis, and encourages employees to become shareholders in the Group through this tax efficient mechanism. Take-up in currently outstanding SAYE grants is about 65% of eligible employees reflecting the continued and ongoing alignment between employees and shareholders and employee commitment to the growth of the Group.

Operation	Maximum opportunity	Performance conditions
Base salary		
Same as executive directors (see Policy Summary Section B7.3)	The Committee agrees the salaries of all MRTs salaries for MRTs and all other employees are determined in line with performance, culture, external market conditions and retention factors. The Committee is made aware of the outcomes of salary reviews across the Group before it determines those of the executive directors and other MRTs. As it has done for a number a years, the Living Wage Foundation rate is the minimum that is paid to all employees, as well as contractors' staff employed at Paragon sites such as cleaners and security personnel who are not on a training rate of pay (for example apprenticeships).	Same as executive directors (see Policy Summary Section B7.3)

Operation	Maximum opportunity	Performance conditions
Benefits		
Provision of market competitive benefits (contractual and voluntary) designed to promote financial and emotional wellbeing and which allows individuals to tailor benefits to suit their lifestyle. This includes the choice of private healthcare on the same basis as the executive directors for senior employees. A number of legacy arrangements exist.	Private healthcare is provided on the same basis as it is for the executive directors and this is also the case for other benefits (contractual and voluntary) that an employee chooses to receive. The maximum level of benefits for all employees is determined on the same basis as the executive directors.	None
Retirement benefits		
The majority of employees can join the Paragon Worksave Pension Plan, the Group's defined contribution pension plan. In this plan employee contributions are matched equally by percent by the employer up to 6% of salary; employee contributions from 6% upwards are matched by an employer contribution of 10% of salary. A number of legacy arrangements exist including the Paragon Pension Plan.	Maximum contribution for Paragon Worksave Pension Plan is 10% of salary. Maximum contribution to Paragon Pension Plan is 25% of salary. Maximum cash supplement contribution (where a former member of the Paragon Pension Plan has left the Plan) is 45% of salary.	None

In respect of Annual bonus and Paragon Performance Share Plan ('PSP') the comparison is made between the executive directors and senior employees with the purpose and link to strategy being the same as for the executive directors and so not repeated below:

Annual bonus		
This operates for senior management as it does for the executive directors except that malus and clawback and deferral* apply to a small number of senior management and MRTs only.	Maximum bonus potential varies across the Group depending on role and experience and for a limited and small number of roles maximum can be in excess of that noted for the executive directors, however awards of this level are rarely received. Bonus awards are usually made to senior management but can be made in certain circumstances to other employees.	Objectives which are used to help determine bonuses are set on a regular basis for all employees and reflect the employee's role and seniority level.

**Deferral*
All senior management (excluding the executive directors) will have 25% of their bonus above £30,000 deferred in 2021 in advance of the regulatory deferral requirements resulting from Paragon Bank becoming a Level 2 firm (in 2020 Executive Committee members excluding the executive directors had 50% of their bonus above £30,000 deferred and for most other senior managers 25% of their award above £30,000 was deferred).

Paragon Performance Share Plan ('PSP')		
Same as executive directors (see Policy Summary Section B7.3)	The maximum award level (except in exceptional circumstances) outside of the executive directors is 100% of salary which is generally only granted to members of the Executive Committee.	Same as executive directors (see Policy summary Section B7.3)

Other variable pay opportunities

The Group provides other variable pay opportunities to certain groups of employees:

- **Profit related pay** – for many years a cash-based PRP distribution of 1% of group profits, has been paid and forms a part of the Group's culture of ensuring a strong connection between the outcomes of the business and employees. Employees below director and head of function level are eligible to participate in this scheme, which pays out a flat sum to all eligible employees
- **£1,000 share award** – in December 2020, in recognition of the efforts by the Group's employees during the pandemic and the need to manage costs carefully with a group-wide salary freeze, a one-off award of £1,000 (gross) of shares was made to all employees (below executive committee and their senior direct reports) utilising the DSBP scheme. The award was granted to all of the Group's people employed on 3 December 2020, subject to minimum performance. The award has a three year vesting period and will be delivered at the end of that period, excepting 'good leavers' whose awards will vest on leaving. As the population for the award included a small number of employees who are MRTs, malus and clawback provisions will be applicable
- **Discretionary bonus** – all employees whose performance has exceeded expectations are eligible for a discretionary bonus
- **Other** – in addition to the above noted certain employees below management level are eligible for overtime pay. Further there are a few financial incentive schemes, separate to the annual variable bonus noted above, which operate in certain operational areas of the business from time to time. All such schemes are required to be approved by the People Director, CFO and Conduct and Compliance Director before implementation and then reviewed at least annually

Remuneration comparisons

Comparison of annual change in directors' pay with the average employee

The table below shows the percentage change in the salary, benefits and bonuses of each of the directors compared against the percentage change in each of those components of pay for an average employee.

	2021			2020		
	Salaries and fees	**Allowances and benefits**	**Bonus**	Salaries and fees	Allowances and benefits	Bonus
	%	**%**	**%**	%	%	%
N S Terrington	**6.4**	**(46.2)**	**45.29**	11.9	4.0	(33.93)
R J Woodman	**6.5**	**-**	**45.46**	11.7	-	(33.93)
J A Heron	**n/a**	**n/a**	**n/a**	(74.3)	(63.0)	(100.0)
F J Clutterbuck	**-**	**-**	**-**	-	-	-
P J N Hartill	**n/a**	**n/a**	**n/a**	(8.4)	-	-
P A Hill	**n/a**	**n/a**	**n/a**	-	-	-
A C M Morris	**93.2**	**-**	**-**	n/a	n/a	n/a
B A Ridpath	**-**	**-**	**-**	-	-	-
H R Tudor	**9.2**	**-**	**-**	2.3	-	-
F F Williamson	**n/a**	**n/a**	**n/a**	-	-	-
G H Yorston	**-**	**-**	**-**	-	-	-
Average employee	**1.0**	**(5.9)**	**101.7**	8.5	19.2	(25.7)

Further information in respect of the constituents of the above noted comparison of annual change in directors' pay with the average employee table is provided below using the sections noted in the table as titles:

- '**Salaries and fees**' – these are calculated using the 'Salaries and fees' data provided in the single figure table for executive directors above and in the 'Chair of the Board's and non-executive directors' fees' table also above. It does not include 'Pension allowance' or the RBA. Whilst the 'Pension allowance' and RBA are fixed pay, and are detailed as such in the single figure table for the executive directors, they are not included in this table to enable a more direct comparison with the average employee information

  The above compares total amounts of salary paid during the year rather than the salary payable at the year end. Therefore, it reflects that the salary review implemented in October 2019 was, for the executive directors unlike most employees, effective for only part of 2020 (from 14 February 2020). There was no increase in their base salary for the salary review implemented in October 2020 as was the case for most employees
- '**Allowances and benefits**' – these are calculated using the data provided in the single figure table above for executive director's and in the 'Chair of the Board's and non-executive directos' fees' table also above

The significant changes shown in the 'Allowances and benefits' for N S Terrington is due to a decrease in travel and related accommodation in 2021 due to Covid. As noted previously 'Allowances and benefits' include a reimbursement from the Company in respect of certain travel costs incurred in connection with the performance of executive director duties which constitutes a taxable benefit in kind. The amounts included represent the travel payments HMRC treats as taxable together with an allowance to cover the tax. The Group provides the amount required to cover the tax liability.

The changes in the average employee section of the table for this item in cash terms are due to a decrease of less than £150 between 2021 and 2020.

- **Not applicable ('n/a')** – this is used where a director was not a director in the noted financial year or in the case of Peter Hill and Alison Morris in the prior financial year and so a comparative is not appropriate or helpful
- **Director changes** – the changes shown to the fee levels for Alison Morris and Hugo Tudor are reflective of part year changes in appointments. In Alison Morris's case to the Board and in Hugo Tudor's as Senior Independent Director
- **Bonuses** – the decline in bonus for employees and directors in 2020 is reflective of the initial stages of the Covid pandemic and the increase in 2021 of the macro-economic changes since the early part of the pandemic

Overall, the comparisons shown in the table reflect the substantially different approach to remuneration and the resulting outcomes to remuneration awards that occurred in 2020 arising from the early stages of the Covid pandemic when compared to those taken / arising in prior years. A reversion to an approach equivalent to 2019 and also to strong award outcomes in 2021 mean that 2019 is a closer equivalent to 2021 than 2020. It is difficult from the information to draw conclusions that would be expected to remain valid in themselves in the upcoming years.

CEO pay comparatives over 10 years

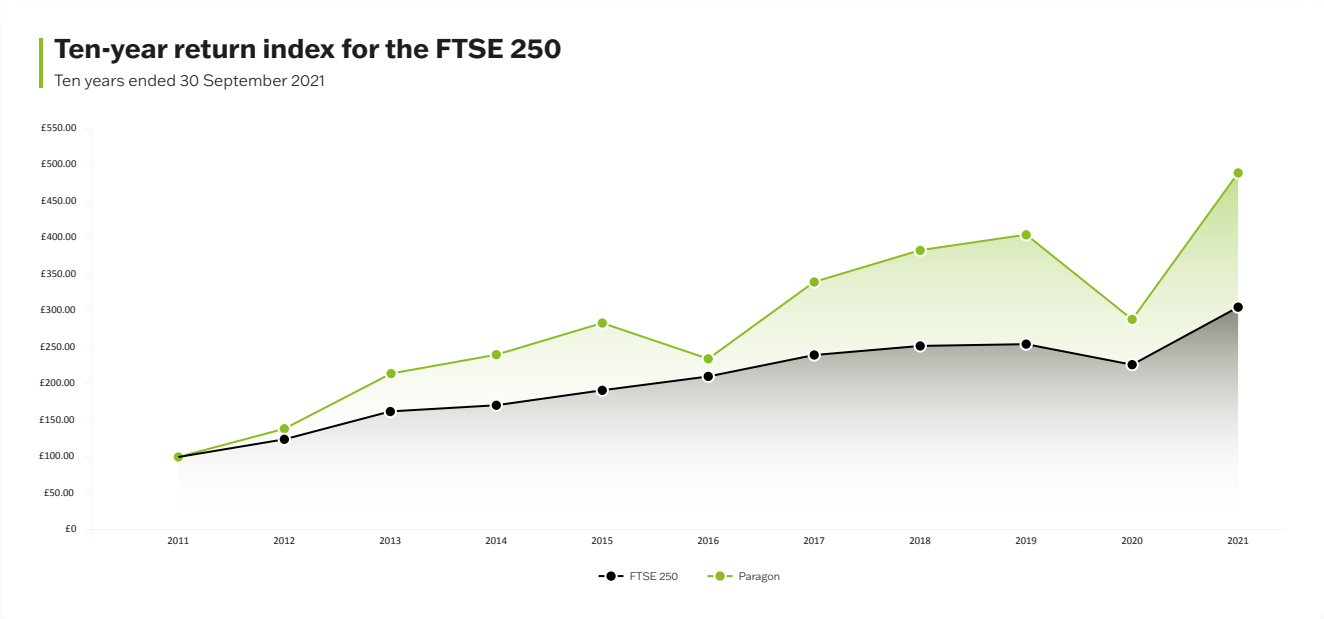
The following table shows the total remuneration, as included in the single figure table, and the amount vesting under short-term and long-term incentives as a percentage of the maximum that could have been achieved, in respect of the CEO, Nigel Terrington, over the past ten years.

	Single figure of total remuneration	Annual bonus earned against maximum opportunity	Long-term incentive vesting outcome against maximum opportunity
	£000	%	%
2021	3,070	96.1	97.00
2020	2,174	66.1	72.00
2019	3,001	89.4	95.44
2018	2,426	90.0	72.47
2017	2,305	90.0	63.51
2016	1,956	75.0	50.00
2015	2,546	100.0	100.00
2014	3,113	100.0	100.00
2013	2,655	85.0	100.00
2012	2,565	87.5	100.00

Performance graph and table

Historically the Company's TSR performance was considered relative to the FTSE All Share General Financial Sector index; however, in light of this index having been discontinued, this has been replaced with the FTSE 250 index. This index has been selected as it is the broad market index in which the Group's shares are included.

The following graph shows the Company's TSR performance compared with the performance of the FTSE 250 index. This graph shows the value, by 30 September 2021, of £100 invested in Paragon Banking Group PLC on 30 September 2011, compared with £100 invested in the FTSE 250 index.



CEO pay ratio

The table below sets out the CEO pay ratio compared to the 25th, median and 75th percentile employee within the Group. In each of the years reported the Group used Option A as defined in The Companies (Miscellaneous Reporting) Regulations 2018, as this calculation methodology was considered to be the most accurate method. This option is calculated in accordance with the single figure table methodology as at 30 September 2021.

The 25th, median and 75th percentile pay ratios were calculated using the full-time equivalent remuneration (prepared in the same manner as those for the single figure table) for all UK employees during the financial year. Certain employees participate in discretionary bonus schemes and long-term incentive schemes.

Remuneration decisions for all employees, including the executive directors, are made taking into account the Group's remuneration philosophy. The CEO pay ratio, as an outcome of those decisions, is therefore reflective of the Group's reward and progression policies.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option A	116:1	85:1	52:1
2020	Option A	88:1	64:1	37:1
2019	Option A	125:1	95:1	55:1

	2021			2020		
	25th percentile pay	**Median pay**	**75th percentile pay**	25th percentile pay	Median pay	75th percentile pay
Base salary	**£22,000**	**£33,000**	**£53,000**	£23,000	£28,000	£36,000
Total remuneration	**£27,000**	**£36,000**	**£60,000**	£25,000	£34,000	£58,000

Base salaries and total remuneration shown above are the details relating to the relevant identified employees in each year.

Change in CEO pay ratios

The changes shown in CEO pay ratios between 2020 and 2021 are reflective of the substantially different approach to remuneration and the resulting outcomes to remuneration awards that occurred in 2020 arising from the early stages of the Covid pandemic. As can be seen from the year-on-year comparative table 2021 and 2019 are more aligned than 2020.

Further, changes in the CEO pay ratio from year to year also reflect the difference in the remuneration package of the CEO relative to the wider employee population. In particular, the higher variable opportunity which is not replicated across the wider employee population.

As a result, it is expected that the CEO pay ratio will be volatile from year to year, reflective of the bonus and PSP outcomes in any year.

Gender pay

Details of the Group's gender pay gap analysis are shown in Section A6.3 Corporate Responsibility. Gender pay review and reporting are overseen by the Nomination Committee as part of its responsibilities in respect of diversity.

Relative importance of spend on pay

Set out below is a summary of the Group's levels of expenditure on pay and other significant cash outflows.

	Note	**2021**	2020	Change
		£m	£m	£m
Wages and salaries	*49*	**65.1**	64.0	1.1
Dividend paid	*40*	**54.6**	35.9	18.7
Share buybacks	*39*	**37.7**	-	37.7
Loan advances and investment in portfolios		**2,601.5**	2,050.5	551.0
Corporation tax paid	*41*	**48.3**	46.1	2.2

Loan advances and investment in portfolios is shown above as this is the principal application of cash used to generate income for the Group. Corporation tax is contributed out of profit to the UK Government.

Other information

Notice periods and terms of engagement

The executive directors hold one year rolling contracts in line with current market practice and the Committee reviews the terms of these contracts regularly. The current service contracts for the executive directors are dated as follows:

Director	Contract date
N S Terrington	1 September 1990 (as amended 7 January 1993, 16 February 1993, 30 October 2001 and 10 March 2010)
R J Woodman	8 February 1996 (amended 10 March 2010)

All new executive directors will have service contracts that are terminable by the Company on a maximum of twelve months' notice.

Chair and non-executive director appointments are for three years unless terminated earlier by, and at the discretion of, the director or the Company. The required notice period is one year for the Chair and three months for the non-executive directors. Current terms of engagement for the Chair and non-executive directors apply for the following periods:

Director	Original appointment date	Current letter of appointment end date
F J Clutterbuck	10 May 2018*	10 September 2022
P A Hill	27 October 2020	26 October 2023
A C M Morris	26 March 2020	25 March 2023
B A Ridpath	20 September 2017	19 September 2023
H R Tudor	24 November 2014	23 November 2023
G H Yorston	20 September 2017	19 September 2023

*F J Clutterbuck was originally appointed as a non-executive director on 12 September 2012.

B7.3 Policy Summary

The information provided in this part of the Directors' Remuneration Report is not subject to audit

Introduction

This part of the Directors' Remuneration Report sets out the Directors' Remuneration Policy that was adopted at the AGM on 13 February 2020. However, this is a summary only, included here for ease of reading the Annual Report on Remuneration, and these pages do not constitute a Policy Statement in accordance with the Regulations. From 1 October 2021, Paragon has become a Level 2 bank and therefore a number of the changes noted in the Remuneration Policy will come into effect for the year ending 30 September 2022. For the full Policy Report, including information relating to the impact of becoming a Level 2 bank, please refer to the Annual Report and Accounts for the year ended 30 September 2019 available at www.paragonbankinggroup.co.uk.

Changes to the executive directors' salaries and pensions together with the introduction of role-based allowances were originally scheduled to take effect from 1 October 2019. Following shareholder engagement these changes were introduced on the day after their approval at the 2020 AGM. There have been no other changes to the policy put to the AGM in 2020.

Elements of the remuneration policy for executive directors

The executive directors receive a combination of fixed and performance-related elements of remuneration. Fixed remuneration consists of salary, benefits, pension scheme contributions or alternative retirement benefit provision and a role-based allowance. Performance-related remuneration consists of participation in the annual bonus plan (including deferral) and the award of shares under the PSP. The performance-related elements of remuneration are intended to represent an appropriate proportion of executive directors' potential total remuneration.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Base salary			
To provide a competitive, fixed cash component that reflects the scope of individual responsibilities and recognises sustained individual performance in the role.	Remunerate fairly for individual performance, having regard to the importance of motivation. Base salaries are typically reviewed annually, taking into account a number of factors including (but not limited to) the value of the individual, the scope of their role, their skills and experience and their performance. The Committee also takes into account pay and conditions of employees in the Group as a whole, business performance and prevailing market conditions.	While there is no maximum salary, if the Committee is satisfied with the individual's performance, increases will normally broadly follow those awarded for the rest of the organisation, in percentage of salary terms. Increases above the level awarded for the rest of the organisation may be awarded in appropriate circumstances.	Whilst no formal performance conditions apply, an individual's performance in role is taken into account in determining any salary increase.
Benefits			
To provide market levels of benefits on a cost-effective basis.	Private health cover for the executive and their family, life insurance cover of up to seven times' salary and company car or cash alternative. Other benefits may be offered from time to time taking into account individual circumstances.	Private health care benefits are provided through third party providers and therefore the cost to the company and the value to the director may vary from year to year. Whilst no absolute maximum level of benefits has been set, the level of benefits provided is determined taking into account individual circumstances, overall cost to the business and market practice.	None.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Retirement benefits			
To provide competitive post-retirement benefits.	Executive directors receive an annual contribution to the Company defined contribution pension scheme or a cash supplement in lieu of contribution (or a combination thereof).	Maximum 20% of salary for incumbent executive directors and 10% of salary for newly recruited executive directors.	None.
Fixed role-based allowance			
To maintain a competitive remuneration package with an appropriate balance of fixed and variable remuneration, with delivery in shares for shareholder alignment.	Annual allowance paid quarterly or at any other frequency that the Committee deems appropriate following approval at the 2020 AGM, on the basis that the after tax value is delivered in shares which are released to the executive director on a pro-rata basis over a five year period (or such other period as may be determined by the Committee from time to time). The role-based allowance is non-pensionable and is not taken into account for annual bonus and PSP purposes. The Committee retains the discretion to amend the retention period and/or pay the fixed role-based allowance in cash if required to do so to meet any regulatory requirements.	The fixed role-based allowances are determined based on the role, skills and responsibility of each individual and taking into account market competitiveness of total remuneration. The maximum role-based allowance is £140,000 per annum for the CEO and £90,000 per annum for the CFO. Any other executive director (including those appointed during the period for which this policy applies) may be eligible for a role-based allowance of up to 25% of salary.	None.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Annual bonus			
To incentivise executives to achieve specific, predetermined goals that drive delivery of the Company's operational objectives. To reward individual performance. To encourage retention and alignment with shareholders' interests through deferral of a proportion of bonus, awarded in shares.	Each executive director's annual bonus is based on a mix of financial and non-financial performance measures measured over one year. The annual bonus is non-pensionable. Malus and clawback apply to the annual bonus as described in the full Remuneration Policy in the Annual Report and Accounts 2019. A portion of the annual bonus may be deferred and / or may be paid in shares, dependent on the regulatory status of the bank and at the discretion of the Committee. Awards under the DSBP can take the form of a nil-cost option with a ten-year life, a conditional award of shares or an award of forfeitable shares. The use of this deferral is described below.	Maximum annual bonus potential is 150% of salary in respect of any given financial year. For target performance, a bonus of 50% of maximum potential will be awarded, with additional amounts being awarded for exceptional performance. If a bonus is based on a strategic measure or personal objective, the Committee will determine the extent of vesting between 0% and 100% based on its assessment of the extent to which the measure or objective has been achieved. For performance below threshold, no bonus is payable.	The performance targets are set by the Committee at the start of the year with input, as appropriate, from the Chair of the Board and Chief Executive. Performance measures and their weightings are reviewed annually to maintain appropriateness and relevance. Performance is assessed against a range of measures, with at least 50% relating to financial metrics and any balance reflecting non-financial measures (including risk) and / or achievement of key personal and strategic measures.

Implementation as a Level 2 bank:

The Group became a Level 2 bank for regulatory purposes on 1 October 2021 and consequently, the PSP will be the primary vehicle for meeting the deferral requirements under the PRA remuneration requirements, although the Committee retains the right to defer such portion of an annual bonus award and over such deferral period as it determines to ensure that regulatory requirements are met.

50% of the bonus earned will be paid in cash, and 50% will be paid in shares. Any shares delivered will normally be immediately vested and may take the form of shares which must be retained for at least 12 months, or a right to acquire shares at the end of the holding period. In the former scenario, the executive director may sell shares to cover the tax liability arising on the award. In the latter scenario, the award may include the right to receive a dividend equivalent in respect of dividend record dates over the holding period. Where an award is subject to a deferral period and does not benefit from dividends or dividend equivalents to meet regulatory requirements, the number of shares to be awarded may be determined using a share price discounted for the expected dividend yield.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Paragon Performance Share Plan ('PSP')			
To incentivise executives to achieve enhanced returns for shareholders. To encourage long-term retention of key executives. To align the interests of executives and shareholders.	An annual award of shares subject to continued service and performance conditions assessed over a three-year performance period. The performance conditions used are reviewed on an annual basis to ensure they remain appropriate. Awards are structured as nil cost options with a ten-year life, a conditional award of shares or an award of forfeitable shares. Implementation of the vesting rules is described below the table. Malus and clawback apply to the PSP as described in the full Remuneration Policy in the Annual Report and Accounts 2019.	Maximum award is 180% of salary in respect of any financial year. 25% of the awards will vest for threshold performance, with full vesting taking place for equalling or exceeding the maximum performance target. In determining the number of shares subject to an award, the market value of a share shall, unless the Committee determines otherwise, be assumed to be the average share price for the five days following the announcement of the Company's results for the previous financial year. Where awards do not receive dividends or dividend equivalents to meet regulatory requirements, the number of shares to be awarded may be determined using a share price discounted for the expected dividend yield.	The Committee will take into consideration prior performance when assessing the value of the PSP grant. Forward-looking performance is measured against a long-term scorecard of challenging performance measures that reflect the Company's strategic priorities. Performance conditions may include financial measures (eg adjusted EPS and / or relative TSR), and non-financial measures which may include risk-based, people and / or customer measures. Performance measures and their weightings, where multiple measures are used, are reviewed annually to maintain appropriateness and relevance.

Implementation as a Level 2 bank:

From 1 October 2021, when the Group becomes a Level 2 bank for regulatory purposes, at the end of a performance period, the performance outcome will be used to assess the percentage of the awards that will vest. These shares will then normally vest in five equal tranches, with the first vesting on or around the third anniversary of the grant date and the last instalment vesting on or around the seventh anniversary of the grant date, in accordance with the PRA remuneration rules.

Each vested tranche will be subject to an additional one year holding period, taking the form of shares which must be retained for at least the holding period, or a right to acquire shares at the end of the holding period. In the former scenario, the executive director may sell shares to cover the tax liability arising on award. In the latter scenario, the award may include the right to receive a dividend equivalent in respect of dividend record dates over the holding period.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Sharesave Plan			
To provide all employees with the opportunity to become shareholders on similar terms.	Periodic invitations are made to participate in the Company's Sharesave Plan. A savings contract over three or five years with the funds used on maturity either to purchase shares by exercising options or returned to the participant. The option is granted at a discount to the share price at the time of grant of up to 20%. The Sharesave Plan provides tax benefits in the UK subject to satisfying certain HMRC requirements and is operated on an 'all employee' basis.	HMRC monthly savings limits apply.	None.

Elements of the remuneration policy for the Chair and non-executive directors

The Chair receives a fee, a company car or cash alternative and is eligible for private health cover on an individual or family basis in the same way as the executive directors. Non-executive directors are remunerated solely by fees. Neither the Chair nor the non-executive directors are eligible to participate in any of the Company's fixed role-based allowance, incentive or pension schemes and they are not entitled to receive compensation for early termination of their terms of engagement.

Benefits may also be provided to non-executive directors related to the performance of their duties (for example, travel and subsistence).

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Salary and fees			
To ensure that the Group can attract and retain the appropriate number and mix of non-executive directors with the correct experience to provide balance, oversight and challenge.	Non-executive director fees are reviewed on a periodic basis and are subject to the Articles of Association. The Chair's fee is set by the Committee, whilst the non-executive directors' fees are determined by the Board. The Board will exercise judgement in determining the extent to which non-executive directors' fees are altered in line with market practice, given the requirement to attract and retain the appropriate skills and given the expected time commitments. Non executive directors are paid an annual base fee with additional fees for additional roles (for example, Senior Independent Director or chair of a board committee) Non-executive directors may be eligible to receive benefits such as travel and other reasonable expenses.	The Board will review fees periodically to assess whether they remain competitive and appropriate in light of changes in roles, responsibilities and / or time commitment of the non-executive directors. Increases above those awarded for the rest of the organisation may be made to reflect the periodic nature of any review. The Articles of Association of the Company contain a maximum level of fees that can be paid annually to non-executive directors (currently £2.0 million). This is reviewed by the Board from time to time. Where benefits are provided to non-executive directors, they will be provided at a level considered to be appropriate, taking into account individual circumstances.	None.

B7.4 Approval of Director's Remuneration Report

The information provided in this section of the Directors' Remuneration Report is not subject to audit

This Directors' Remuneration Report, Section B7 of the Annual Report and Accounts, including the Statement by the Chair of the Committee, the Annual Report on Remuneration and the Policy Summary, has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended and has been approved by the Board of Directors.

Signed on behalf of the Board of Directors

Hugo Tudor
Chair of the Remuneration Committee
7 December 2021

B8. Risk management

> **...the impact of Covid has dominated the Committee's agenda and the future trajectory remains uncertain, however I have been very impressed with the way the Group has and continues to deal with the challenges it brings.**
>
> **Peter Hill,** Chair of the Risk and Compliance Comittee

B8.1 Statement by the Chair of the Risk and Compliance Committee

Dear Shareholder

I am pleased to write to you as Chair of the Risk and Compliance Committee to explain how we, as a Committee, have discharged our responsibilities in the last year. This is my first report as Chair of the Committee, having taken over the role as of 31 December 2020 during a period of significant disruption to the UK economy and the Group's operating environment due to the Covid pandemic. Clearly the impact of Covid has dominated the Committee's agenda and the future trajectory remains uncertain, however I have been very impressed with the way the Group has and continues to deal with the challenges it brings.

As we gradually move out of the pandemic and into new ways of working, the Committee's focus will undoubtedly shift to broader risk issues. My priority as Chair of the Committee is to ensure that we remain a forward-looking body and continue to consider those emerging risks which may impact the strategy or operating capability of the Group.

The ability of the Group to react in an agile and effective way to Covid and to emerging risks more generally, has been facilitated through the development of its risk management capabilities. Significant work has been undertaken over the last year to enhance the ERMF. The evolution of this framework to ensure it is commensurate with the size and complexity of the Group's operations is a key strategic priority, and since I joined the Committee, I have been pleased to see the good progress that has been made. This has included the recruitment of experienced risk resource and enhancements to the risk policy framework. A strong ERMF is key to enabling the Committee to effectively discharge its responsibilities and ensure that it is able to focus on matters of greatest significance to the Group.

Intrinsic to risk management across the Group is the necessity for a strong risk aware culture. Excellent progress has been made in the maturity of risk across the Group and in embedding risk considerations in day-to-day decision making.

Over the next year and beyond a priority for the Committee is to oversee the further development of the risk culture, ensuring it supports the Board's overall risk strategy and appetite, and becomes further embedded in the Group's operations.

The primary responsibility of the Committee continues to be the maintenance of oversight of the effectiveness of the Group's risk management framework and of its systems and controls for compliance with statutory and regulatory obligations. This oversight is enabled through strong and evolving governance structures. In particular, the enhancements made during 2020 with the introduction of the monthly ERC, have enabled the Committee to maintain its focus on the key material and strategic risk issues that the Group faces.

Given the challenges of Covid and their impact on the risk profile, the Committee's agenda during the last year has continued to focus on the ongoing oversight of the regulatory, economic and people-related impacts resulting directly from the pandemic. In particular, the Committee has regularly reviewed:

- The ongoing impacts of working arrangements for employees given the further UK lockdowns in November 2020 and January 2021
- The roll-off of payment holidays and implementation of other forbearance strategies, ensuring customer treatment remains at the forefront of our considerations
- The impact of UK Government relief programmes including the issuance of CBILS, BBLS and RLS on the Group's risk profile, including the associated credit risk, financial crime and processing risks

The Committee continues to monitor the implications of these changes together with developments in regulatory requirements to manage customer and prudential risks arising from Covid. It is encouraging to see how effectively these risks have been managed by the Group. In particular, revisions to credit policies made in response to the initial impact of Covid, have resulted in minimal credit related losses to date, despite the scale of the economic challenges involved.

The Committee has continued to balance the need to provide close oversight of the developing situation in respect of the pandemic with non-pandemic specific risk issues including:

- Monitoring the progress of the Group in managing exposures to LIBOR as the primary sterling interest rate benchmark as this is phased out, ensuring customer outcomes remain a key priority
- Continued oversight of the Group's project to implement an IRB approach for credit risk including the submission of Phase 2 of the buy-to-let application in March 2021
- Overseeing the Group's progress on responding to the increasing challenges posed by climate change and addressing any impacts this may have on its risk profile, including the consideration of its lending and operational strategy in light of wider global imperatives and initiatives
- Review of the Group's ongoing approach to Operational Resilience following the final guidance published by the regulators at the end of March 2021
- Assessment of the existing risk exposure posed by the Group's historic lending on buildings with potential cladding issues and ensuring appropriate controls to mitigate future exposure

Overall, I am pleased to confirm that in the last year the Committee has again, in my view, met its key objectives and carried out its role effectively.

As I look to the year ahead there remain significant challenges which the Group will continue to face. It is clear that the economic, political and regulatory environment is highly dependent on the trajectory of the pandemic which remains uncertain. However, I have been impressed with the way that the Group has and continues to respond. The new ways of working that were introduced in the face of the UK lockdown have proven to be sustainable and the flexibility and innovation as a result have increased the Group's resilience and strengthened the risk mitigation capability. Control frameworks that have been introduced as a result of initiatives such as payment holidays and government reliefs have proven effective with extremely low levels of operational events.

In addition, the Group will continue to monitor significant non-Covid specific challenges within the operating environment that could materially impact its risk profile. The uncertainties that were prevalent following the UK's departure from the EU are still manifesting themselves. The nature of these risks continues to evolve as has been seen in the recent disruptions to supply across the likes of fuel, consumables and other raw materials.

The Committee's principal areas of focus for the financial year ending 30 September 2022 will continue to form key agenda items for the coming year. Other priorities for the Committee will include:

- Ongoing oversight of the longer-term risk implications of Covid, and any further Government or regulatory measures that are implemented
- Continuing to review the potential impacts on the Group of the consequences of the UK's withdrawal from the EU and any changes to the regulatory regime this may entail
- Consideration of potential impacts on the Group from emerging supply chain issues which are affecting the distribution of energy and other commodities across the UK, particularly given the inherent inflationary pressures that are beginning to manifest themselves
- Ongoing oversight of the Group's response to the 'Dear CEO' letter on financial crime systems and controls
- Evaluating the challenges posed by Government proposals to improve energy efficiency of both owner-occupied and privately rented homes by mandating minimum EPC ratings
- Reviewing the Group's progress in enhancing its ERMF, including ensuring risk appetites remain consistent with the delivery of its strategic objectives, and proposing any required changes in risk appetite to the Board
- Continuing its focus on ensuring that customers receive fair outcomes, including monitoring the treatment of vulnerable customers, and ensuring that the management of conduct risk remains a key priority for the Group
- Driving the embedding of the Group's risk culture across the Group, further enabling the Committee to focus on high materiality matters and developing its horizon scanning capability
- Undertaking deep dives in relation to specific risk categories and business areas on both a rolling and ad hoc basis

I am confident that the Group has the skills and experience to manage the risks it is likely to encounter in the year ahead, but it is critical that the Group continues to anticipate any potential impact and remains agile in the event circumstances change materially capabilities that were ably demonstrated during the pandemic.

In looking back over my first nine months, I would like to take the opportunity to thank Finlay Williamson, the previous Chair of the Committee, for his leadership over the previous three years. During his tenure the Committee matured in terms of both reporting and discussion, ensuring that it provides effective oversight of the complex risk landscape within the Group despite the backdrop of ever-changing regulation. I wish Finlay all the best for the future. The transition in leadership has been seamless and I would like to thank my fellow directors and the Group's Risk function for their support in this. I very much look forward to working with them over the year to come, as we look to the new challenges of a post-pandemic world.

Peter Hill

Chair of the Risk and Compliance Committee

7 December 2021

B8.2 Risk governance

The Group's approach to governance and the committee structures are described in Section B4. The risk committee structure and lines of oversight in place throughout the year are set out below.

Risk and Compliance Committee

The Risk and Compliance Committee assists the Board in fulfilling its responsibilities for risk management. It comprises the independent non-executive directors and the Chair of the Board. The terms of reference, which were reviewed and approved by the Board in October 2020 and again in October 2021, after the end of the year, include all matters indicated by the 2018 Code.

The Committee's responsibilities include reviewing:

- Recommendations and matters for escalation from the ERC
- The effectiveness of the Group's risk management framework and the extent to which risks inherent in the Group's business activities and strategic objectives are controlled within the risk appetite established by the Board
- The effectiveness of the Group's systems and controls for compliance with statutory and regulatory obligations
- The appropriateness of the Group's risk culture, to ensure it supports the Group's stated risk appetite
- The effectiveness of the Group in addressing issues requiring remedial attention to ensure actions are completed in a timely manner and minimise the potential for risk appetite thresholds to be exceeded

The Committee provides ultimate oversight and challenge to the Group's enterprise-wide risk management arrangements, which are managed through the ERC. It also retains oversight responsibility for model risk within the Group. The Risk and Compliance Committee delegates day-to-day oversight for model risk to the MRC.

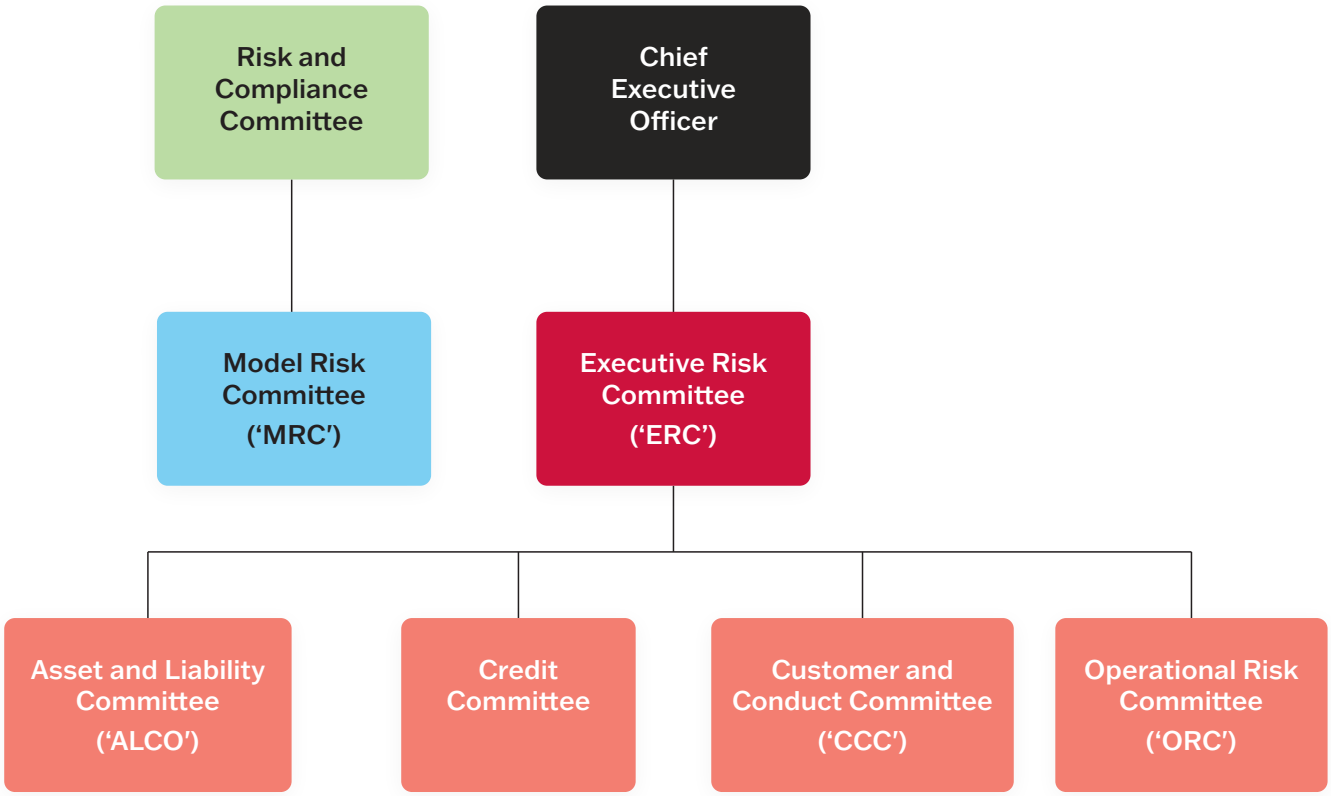
The Risk and Compliance Committee meets at least four times a year and normally invites the executive directors, CRO, Chief Operating Officer and Internal Audit Director to attend its meetings. However, it reserves the right to request any of these individuals to withdraw or to request the attendance of any other Group employee.

The Committee aims to meet annually with the CRO, without the presence of executive management, to discuss his remit and any issues arising from it.

The Committee also has the power to requisition a meeting with the Internal Audit Director and / or the external auditor without the presence of executive management to discuss any matters that any of these parties believe should be discussed privately.

Standing items covered in each meeting of the Committee have included:

- Reviews of the principal risks facing the Group, which included a comprehensive refresh of the risks during the year
- Consideration of new or emerging risks and regulatory developments and their impact on the Group
- Consideration and challenge of management's rating of the various risk categories to which the Group is exposed
- Consideration of the root causes and impact of material risk events and the adequacy of actions undertaken by management to address them



In addition, during the last year, the Committee:

- Reviewed the Group's risk appetite to ensure it remained consistent with the delivery of the Group's strategic objectives, proposing any required changes to the Board
- Continued to monitor progress in respect of the Group's application for regulatory approval of its IRB approach to credit risk management
- Monitored the Group's progress on transitioning away from LIBOR including project progress, risks and issues and potential impacts on the fair treatment of customers
- Conducted deep dive reviews into targeted risk areas, including the potential impact on the Group of negative interest rates, rising inflation and the prospect of potential interest rate rises
- Provided ongoing oversight of the Group's exposure to issues relating to properties with defective cladding and its review of underwriting guidelines in relation to this risk
- Considered regular focussed reviews of key risk areas including credit risk, capital risk, liquidity and market risk, climate change risk, conduct risk and across the different categories of operational risk
- Continued to monitor the progress of the Group in addressing its approach to operational resilience following the issuance of final rules in March 2021, including a significant focus on services provided by third parties
- Reviewed, challenged and approved the Management Responsibilities Map
- Reviewed, challenged and approved the terms of reference of the MRC
- Reviewed, challenged and approved the Compliance Monitoring Plan ('the Compliance Plan') and subsequent updates to the Compliance Plan
- Reviewed, challenged and approved the Money Laundering Reporting Officer's annual report
- Considered and challenged reports in relation to ICAAP, ILAAP and Recovery Plan recommending approval to the Board
- Challenged and approved various key risk policies

Executive Risk Committee ('ERC')

The purpose of the ERC is to assist the CEO in designing and embedding the Group's risk management framework, monitoring adherence to risk appetite statements and identifying, assessing and controlling the principal risks within the Group. It includes all Executive Committee members, with the Internal Audit Director attending as an observer, and reports to the CEO. The ERC monitors the interaction and integration of the Group's business objectives, strategy and business plans with the Group's risk appetite and risk strategy and escalates breaches and significant matters to the Risk and Compliance Committee, recommending changes as appropriate.

Key areas of focus for the ERC include:

- Developing and, at least annually, reviewing the appropriateness and effectiveness of the overall risk management framework to manage and mitigate risk
- Reviewing the Group's approach to controlling each principal risk and its capability to identify and manage such risks
- Reviewing emerging risks as they arise, including consideration of their potential impact on the Group's business objectives, strategy and business plans, as well as risk choices, appetite and thresholds
- Periodically reviewing the effectiveness of the Group's internal control and risk systems including the Group's material outsourced arrangements and risks associated therewith, particularly where they might impact customers
- Ensuring compliance with relevant PRA and FCA regulations (excluding the SMCR, which is overseen by the Executive Committee)
- Reviewing the process and outcome of the Group's ICAAP, ILAAP, Recovery Plan and Resolution Pack together with recommendations to the Risk and Compliance Committee and Board for approval
- Considering the implications of any proposed legislative or regulatory changes that may be material to the Group's risk appetite, risk exposure, risk management and regulatory compliance

The ERC is supported by an Asset and Liability Committee, Customer and Conduct Committee, Credit Committee, and Operational Risk Committee, which focus on specific aspects of the Group's risk profile. Each of these executive committees operates within terms of reference formally approved by the ERC. Their primary functions are described below.

The ERC retains direct responsibility for those principal risk areas which impact across multiple aspects of the Group's operations, including climate change and strategic risk.

Asset and Liability Committee ('ALCO')

ALCO comprises heads of relevant functions and is chaired by the Balance Sheet Risk Director.

The principal purpose of ALCO is to monitor and review the financial risk management of the Group's balance sheet. As such, it is responsible for overseeing all aspects of market risk, liquidity risk and capital management as well as the treasury control framework. ALCO operates within clearly delegated authorities, monitoring exposures and providing recommendations on actions required. It also monitors performance against appetite on an on-going basis and makes recommendations for revisions to risk appetites through ERC to the Risk and Compliance Committee.

Customer and Conduct Committee ('CCC')

The CCC comprises heads of relevant functions and is chaired by the Conduct and Compliance Director.

The CCC is responsible for overseeing the Group's conduct risk and compliance arrangements. The Committee considers conduct risk information such as details of conduct breaches; systems and procedures for delivering fair outcomes to customers (such as in relation to customer vulnerability); the product governance framework; and monitoring reports. It also considers product reviews from a customer perspective. With respect to compliance, the CCC is responsible for overseeing the maintenance of effective systems and controls to meet conduct-related regulatory obligations. It is also responsible for reviewing the quality, adequacy, resources, scope and nature of the work of the Compliance function, including the annual Compliance Monitoring Plan.

Credit Committee

The Credit Committee comprises senior managers from the risk, finance and collections functions and is chaired by the Credit Risk Director.

The Credit Committee approves credit risk policies in respect of customer exposures and defines risk grading and underwriting criteria for the Group. It also provides guidance and makes recommendations in order to implement the Group's strategic plans for credit. The committee oversees the management of the credit portfolios, the post-origination risk management processes and the management of past due or impaired credit accounts. It also monitors performance against appetite on an on-going basis and makes recommendations for revisions to the credit risk appetites through ERC to the Risk and Compliance Committee. The Committee also operates the Group's most senior lending mandate.

Operational Risk Committee ('ORC')

The ORC comprises heads of relevant functions and is chaired by the Enterprise Risk Director.

The ORC is responsible for overseeing the Group's operational risk and resilience arrangements, including those systems and controls intended to counter the risk that the Group might be used to further financial crime. The Committee remit includes risks arising from personnel, technology and environmental matters within the business. The Committee considers key operational risk information such as key risk indicators, themes within risk registers, emerging risks, loss events, control failures, and operational resilience measures. It also monitors performance against appetite on an on-going basis.

Model Risk Committee ('MRC')

The MRC reports directly to the Risk and Compliance Committee and comprises senior managers from Risk, Finance and the main business areas. It is chaired by the CRO and attended by Hugo Tudor, a non-executive director. The role of the MRC is to review and make recommendations on all material aspects of the rating and estimation processes in relation to key credit and finance models. The MRC also acts as the 'Designated Committee' for IRB purposes, approving all material aspects of IRB rating systems.

B8.3 Risk management culture

The Board is committed to establishing and maintaining a strong risk culture as a fundamental element of the Group's corporate culture. This risk culture promotes effective risk management that is consistent and commensurate with the nature, complexity and risk profile of the business.

The importance of risk management is embedded at all levels of the business and all employees are expected to understand and have accountability for the risks they take. Appropriate risk management and the behaviours expected to deliver this, are core to the Group's performance management process.

The Group's strong risk culture is embedded through various practices which support and protect the Group's wider strategic goals and are essential to protecting the Group's customers, shareholders, creditors, and its reputation. In particular:

- The fair treatment of customers and the delivery of fair outcomes, particularly for those customers considered to be vulnerable, is central to the Group's risk management approach
- Robust risk management, conducted within an open and transparent environment, remains at the heart of all decision-making
- Business is carried out only where the potential risk to the Group and its customers has been evaluated together with the potential reward and where the residual risk exposure remains within defined risk appetites
- The risk management framework ensures that risks are owned and managed in a consistent way

The Group's risk culture has been central in ensuring historically low levels of credit and operational losses and the absence of any material conduct issues affecting customers.

B8.4 Risk management framework

Introduction

The Group's enterprise risk management framework ('ERMF') is designed to enable management to identify and focus attention on the risks most significant to its objectives and to provide an early warning of events that put those objectives at risk. The framework and the associated governance arrangements are designed to ensure there that there is a clear organisational structure with distinct, transparent and consistent lines of responsibility in the facilitation of risk management.

Effective risk management is core to the execution of the Group's strategy. The Group continues to ensure that the framework evolves to reflect the changing business, regulatory and economic landscape and emerging threats. Therefore, the Group is committed to ongoing investment and enhancement in its enterprise-wide risk management system. Core to this approach is ensuring that tools for effective risk identification, assessment, treatment and monitoring are appropriate and embedded at all levels of the Group's businesses.

During the past twelve months further work has been undertaken to develop the framework to support the Group's strategic aspirations, building on foundations laid in the previous financial year. Central to this has been the recruitment of experienced risk resource to further mature the core risk processes, with a detailed ongoing programme of work to support this, which will extend through the coming financial year. Priority activities include further refinement of risk appetites across all risk categories, a more comprehensive and standardised risk policy framework, and enhanced tools and techniques for assessing and embedding risk culture, thereby ensuring improved alignment to performance and reward.

Enterprise risk management framework

The ERMF is intended to provide a structured and disciplined approach to the management of risk within agreed appetites thereby supporting the achievement of the Group's strategic objectives. The key objectives of the ERMF are to:

- Determine a defined strategy for the Group's attitude to risk, including outlining the approach taken to setting qualitative statements and quantitative metrics to define and assess the Group's tolerance and appetite for risk
- Establish a consistent risk taxonomy, describing the principal risk categories and the more granular aspects of each of these categories
- Promote an appropriate risk culture across the Group, ensuring that risk is considered as part of all key strategic and business decision making
- Establish standards for the consistent identification, measurement, monitoring, management and reporting of risk exposure and loss experience
- Promote risk management techniques to proactively reduce the frequency and severity of risk events, driving control improvements where necessary
- Facilitate adherence to regulatory requirements, including threshold conditions, capital standards and support the regulatory requirements associated with the ICAAP, ILAAP and the Recovery Plan
- Provide senior management and relevant committees with risk reporting that is relevant and appropriate, enabling timely action to be taken in response
- Define risk policies which align to the Group's principal risks and identify the key controls to measure and manage these risks

Three lines of defence model

The Group employs a 'three lines of defence model' to delineate responsibilities in the management of risk ensuring adequate segregation in the oversight and assurance of risk as follows:

The three lines of defence		
Line 1	**Line 2**	**Line 3**
Risk management processes within operational areas	*Risk and Compliance function overseeing the ERMF and providing support and challenge*	*Internal Audit function assessing effectiveness of risk management*

- The *first line of defence* ('Line 1'), comprising executive directors, together with managers and employees in operational and support areas. Line 1 has day-to-day responsibility for:
  - Risk identification, assessment, treatment, monitoring and reporting
  - Control and ongoing monitoring of operations
  - Escalation and reporting of risk issues against stated appetites

  Risk Champions are appointed within all business areas to support the embedding of an effective risk culture across the Group
- The *second line of defence* ('Line 2') is provided by the independent risk and compliance function. This division is headed by the CRO, who is a member of the Group's Executive Committee. The function is overseen by the Risk and Compliance Committee and its supporting executive committees. Line 2 provides support and independent challenge on all risk related issues specifically:
  - Developing and maintaining the ERMF across the Group
  - Developing and maintaining supporting risk processes within that framework, ensuring these are consistent with the Board's risk appetite
  - Ensuring that risks identified by line 1 are measured, monitored, controlled and reported on a timely basis
  - Maintaining open and constructive engagement with the regulatory authorities

  The CRO attends meetings of the Risk and Compliance Committee and the Board to report directly to the directors on risk issues and has a close working relationship with the Chair of the Risk and Compliance Committee, an independent non-executive director.

- The *third line of defence* ('Line 3') is provided by the Internal Audit function which is responsible for reviewing the effectiveness of the first and second lines of defence. This function is overseen by the Audit Committee and led by the Internal Audit Director who reports directly to the Audit Committee. Internal Audit provides independent assurance on:
    - Line 1 and Line 2 risk management activities
    - The appropriateness and effectiveness of internal controls
    - Effectiveness of policy implementation

  Further information on the work of the Internal Audit function is given in the report of the Audit Committee (Section B6).

Risk appetite framework

The risk appetite framework outlines the Group's approach to setting and monitoring risk appetite. The framework stipulates the approach to setting risk appetites, reporting requirements and escalation obligations and the frequency of review. The framework is subject to annual board approval.

The following principles are integral in determining the Group's risk appetite:

- Alignment to principal risks
- Alignment to strategic objectives
- Appropriateness of calibration to drive timely action
- Facilitation of ongoing monitoring of the risk profile

The Group has developed a tiered approach to setting and monitoring of risk appetite. A set of board-owned (Level 1) metrics has been established. These are monitored on an ongoing basis and any threshold breaches in respect of these are immediately escalated to the Board. Executive committees are responsible for reviewing more extensive (Level 2) metrics. Any breaches of Level 2 metrics are escalated to the ERC which determines whether these are sufficiently material to be reported to the Board.

Risk appetite is central to the effective implementation and operation of the ERMF. The ongoing evolution of the risk appetite framework and refinement of the Group's risk appetites for all principal risks is a priority activity in the further maturing of the ERMF. Work has taken place in the year and continues to be undertaken to ensure that:

- All principal risks have strategically aligned qualitative and quantitative appetites
- There are appropriate Level 1 and 2 appetite metrics monitored on an ongoing basis
- Calibration of appetite is appropriate and drives timely management action

In particular, work is progressing to designate appropriate Level 1 and Level 2 risk metrics and risk appetites for climate change related risks across all areas of the business.

B8.5 Principal risks and mitigations

The Group is exposed to a number of principal risks and uncertainties that arise from the operation of its business model and strategy. A summary of those risks and uncertainties which could prevent the achievement of the Group's strategic objectives, how the Group seeks to mitigate those risks and the change in the perceived level of each risk in the last financial year are described below. These risks are discussed in more granular detail in the Group's Pillar III report, published on the Group website.

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

The risks are set out in accordance with the Group's amended classification of its principal risks, approved by the Board in the year. The principal risks remain consistent from the previous financial year, except that pension obligation risk is no longer deemed a principal risk for the Group given the diminishing deficit, changes in the scheme to mitigate future risk and ongoing management of the risk through the triennial valuation process, as described in Note 52. No further changes were proposed.

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

Risk increasing	Risk decreasing	Risk stable
↑	↓	← →

Capital Risk

Description	Mitigation	Year-on-year change
The Group faces the risk of insufficient capital to operate effectively including meeting minimum regulatory requirements, operating within Board approved risk appetite and supporting the Group's strategic goals. The BCBS has set 1 January 2023 as the implementation date for its revisions to the Basel III framework, including increases in risk weights for residential real estate exposures. There is therefore a risk that the Group's capital requirements will be increased to some extent.	A robust process exists over Pillar 1 capital reporting, both internally and to the PRA, with a comprehensive annual ICAAP assessment including all material capital risks. An internal capital buffer is maintained in excess of minimum regulatory requirements to protect against unexpected losses or risk-weighted asset growth. The Group submitted the second stage of its application for the accreditation of its IRB approach to buy-to-let credit risk for capital adequacy purposes to the PRA in March 2021. The project continues to progress to plan, and work will continue through the next financial year.	↓ While there has been little impact on the overall capital risk framework in the financial year and the Group's assessment of the likely impact of these changes, the progress made in the Group's balance sheet management, its IRB development programme and the positive results of the most recent PRA assessment of the Group's risk profile mean that it is better placed to meet these challenges than it was a year ago.

Liquidity and Funding Risk

Description	Mitigation	Year-on-year change
The Group is exposed to the risk that it has insufficient funds to meet its obligations as they fall due. Retail deposit taking is central to the Group's funding plans and therefore changes in market conditions could impact the ability of the business to maintain the level of funding required to sustain normal business activity.	The Group maintains a diversified range of both retail and wholesale medium and long-term funding sources to cover future business requirements and liquidity to cover shorter term funding needs. Internally, comprehensive treasury policies are in place to ensure sufficient liquid assets are maintained and that all financial obligations can be met as they fall due, even under stressed conditions. The Group has a dedicated Treasury function which is responsible for the day-to-day management of its overall liquidity and wholesale funding arrangements. The Board, through the delegated authority provided to the ALCO, sets limits as to the level, composition and maturity of liquidity resources.	← → The Group remains well placed to access funding from a wide range of sources to meet its future funding requirements. During the year a second fully retained securitisation was completed, boosting, contingent funding options and the TFSME, which remained open for drawings until 31 October 2021, was accessed. In addition, access to the retail savings market has broadened with new routes to market and the launch of an SME deposit product.

Market Risk

Description	Mitigation	Year-on-year change
The Group is exposed to the risk that changes in interest rates at which it lends and those at which it borrows may adversely affect its net interest income and profitability. In addition, its financial performance may be affected by fluctuations in the exchange rates between currencies.	This risk is managed within Board approved risk appetite limits with comprehensive treasury policies in place to ensure that the risk posed by changes and mismatches in interest or exchange rates are effectively managed. Day-to-day management of interest rate risk within Board approved limits is the responsibility of Treasury, with control and oversight provided by ALCO. The Group seeks to match the maturity profile of assets and liabilities and uses financial instruments, such as interest rate swaps, to hedge the exposure arising from repricing gaps.	↓ The Group's overall market risk profile, relative to its balance sheet, has remained broadly similar and therefore associated risk levels remain generally stable compared to previous periods. However, the transition of assets and liabilities from LIBOR to alternative risk-free rates is well progressed with the majority of assets and liabilities addressed, and the programme expected to be completed before the December 2021 cut-off date. This has removed a degree of uncertainty in relation to interest rate risk and so the risk profile has reduced.

Credit Risk

Description	Mitigation	Year-on-year change
Credit risk elements which could expose the Group to the risk of unexpected material losses include: • Customer risks through failure to screen potential borrowers, and manage repayments • Concentration risk in credit portfolios through an uneven distribution of exposures of borrowers, asset classes, sectors or geographies • Reduction in value of collateral owned by the Group, or secured against debt owed to it • Wholesale counterparty risk • Outsourcer default risk	The Group has a robust limit framework supported by comprehensive policies in place that set out detailed criteria which must be met before loans are approved. Exceptions to credit policies require approval by the Credit Risk function, operating under a mandate from the Credit Committee. The Group uses a range of sources to inform expectations of key external factors such as interest rate movements and house price inflation which are in turn used to guide policy and underwriting. The Group also continues to exploit opportunities to diversify the range of its activities and income streams, consistent with its strategic objective of operating as a prudent, risk focussed specialist lender. The majority of the Group's loans by value continue to be secured against UK residential property at conservative loan-to-value levels. The primary collateral therefore forms part of a highly mature, liquid, sustainable market demonstrated over many decades of operation. Exposure to wholesale counterparty credit risk is limited to counterparties that meet specific credit rating criteria per the Group's comprehensive treasury policies. Exposure to approved counterparties is monitored daily by senior management within the Group's Treasury function with all exposure managed within ALCO approved limits. Ongoing monitoring of the credit rating and financial performance of all outsourced relationships and critical suppliers is undertaken.	↓ Prudent credit tightening and pro-active customer contact strategy throughout the Covid pandemic, have combined with the Group's consistently high lending standards to ensure that customers have maintained repayments and that arrears and losses have been minimised. The Group has returned to lending criteria that are generally in line with that in place pre-pandemic. Performance levels, both for the Group and the financial services sector more generally, coupled with a more positive outlook for the UK economy, including steadily rising house prices, and the progress of the Covid pandemic, indicate that this risk has reduced compared to 30 September 2020.

Model Risk

Description	Mitigation	Year-on-year change
Models are used across the Group to inform financial decision making and hence it is imperative that the environment in which the models are designed, implemented and operate is subject to appropriate rigour.	As the use of internally developed models has increased across the Group, a robust framework and governance has been developed to manage the associated risks. This includes the MRC which oversees the development, implementation and ongoing monitoring of models across the Group. The Model Governance Framework provides a structured and disciplined approach to the management of model risk. This includes clear development, implementation and ongoing oversight principles together with the requirements for independent validation based on model materiality criteria.	← → It is recognised that the increasing use of internally developed models will drive a commensurate risk to the Group. However, given the strength of the framework and oversight processes, model risk remains within appetite and the outlook remains stable.

Reputational Risk

Description	Mitigation	Year-on-year change
Maintenance of a strong reputation across all business lines and operational activities is core to the Group's philosophy. Detrimental reputational impacts may result from crystallisation of other principal risks, but also through failure to safeguard the integrity of the brand or failing to meet external expectations in conducting business practices.	The reputational impacts of any changes to strategy, pricing or processes are explicitly considered in the decision-making process and are reviewed by the Director of External Relations, and the Group will not undertake any activity it considers might be damaging to its reputation. The Group has an experienced External Relations function which manages all Group communications and ensures that the reputational profile of the Group remains protected at all times. All material risk events are reviewed for reputational impact and mitigating actions are initiated as appropriate.	← → The Group continues to manage its reputation effectively in all its dealings. This has been particularly important given the potential impact of the Covid pandemic over the year. Whilst it is mindful that the threat to reputation can emanate from many sources, the Group remains well-placed to respond quickly and efficiently to any reputational issue.

Strategic Risk

Description	Mitigation	Year-on-year change
The Group's strategy as a specialist lender is key to its operating model and business planning. However, there is a risk that changes to the business model or macroeconomic, geopolitical, regulatory, competitive or other factors may impact delivery of strategic objectives.	The Group closely monitors economic developments in the UK and overseas, with support from leading independent macro-economic and other advisors. Stress testing is performed to assess its expected performance under a range of operating conditions. This provides the Board with an informed understanding and appreciation of the Group's capacity to withstand shocks of varying severities. The Group continues to exploit opportunities to diversify the range of its activities and income streams, consistent with its strategic objective of operating as a prudent, risk focussed lender.	← → Prospects for UK economic performance remains unusually uncertain. The medium and longer-term impacts of Covid, together with the implications of the UK's new trading relationships post-Brexit, are still to be determined. Whilst the Group has continued to remain resilient throughout the pandemic, and activity levels have been strong, the potential for future waves of the virus and associated lockdowns still present a risk.

Climate Risk

Description	Mitigation	Year-on-year change
The Group considers the impact of climate change either directly on the Group or indirectly through its third-party relationships. This includes the transitional risk to its strategy and profile through moving to a low carbon environment and any physical risks arising from changes to the natural environment	The Group proactively manages physical risk and has specific underwriting policies aimed at the mitigation of, for example, risks associated with flooding and coastal erosion. The potential for transition risk is monitored within the different business lines, with external events prompting consideration of amendments to credit policy and underwriting criteria. The CFO has been designated as the Senior Manager with responsibility for climate change and, during the year, the Group set up the Sustainability Committee, which supports ExCo in ensuring that the impacts of climate change are considered comprehensively across all aspects of the business. The tightening of efficiency standards for domestic properties has the potential to impact the buy-to-let market and the energy performance of property stock. The Credit Committee has considered the EPC data to provide an insight into the energy efficiency of properties on which the Group lends. Longer term strategic planning will also be informed by the ongoing analysis.	↑ The Group has made progress on its climate change agenda, with activity focused on incorporating climate risk considerations within the ERMF, while governance has been enhanced with the establishment of the Sustainability Committee. However the levels of regulatory scrutiny and public interest in this area have increased significantly during the period and therefore the overall risk is considered to have increased over the year.

Conduct Risk

Description	Mitigation	Year-on-year change
The commitment to delivering fair customer outcomes is at the heart of the Group's culture. Conduct risk arises where the culture and behaviours fail to promote the customer's best interests resulting in unfair outcomes for the customer.	The Group has a formal Conduct Risk Management framework, which includes detailed policies addressing the fair treatment of customers. At the centre of these is the Conduct Risk Policy. This sets out the Group's overarching approach to the management of conduct risk. The management of conduct risk within the Group is tailored to the specific product and customer type concerned including dedicated quality and control teams which validate process adherence and the delivery of fair treatment for customers and appropriate management of vulnerable customers. All employees are required to undertake conduct risk related training. The Group's approach to employee remuneration means that very few employees are included in financial incentive schemes. The incentive scheme framework is reviewed by the CCC annually and individual schemes require approval from the People Director, CFO and Conduct and Compliance Director before implementation.	← → Despite the rapid implementation of tailored support to customers impacted by Covid last year, whilst some customers continue to require further support, the overarching conduct risk profile has remained broadly static.

Operational Risk

Description	Mitigation	Year-on-year change
Operational Risk arises across the Group through the possible inadequacy or failure of internal processes, people and systems or from external events. Operational risk is inherently diverse in nature. All the Group's activities create various forms of operational risk which need to be managed through a strong control and oversight structure. Exposure to operational risk is exacerbated through any periods of transformation and / or stress.	The Group has an established operational risk framework which enables timely and accurate analysis of operational risk exposures and drives accountability and remedial actions where issues are identified. Management of operational risk is enabled through a comprehensive framework of policies which are designed to ensure that all key operational risks are managed consistently across the business. This includes risk areas such as Change Management, Procurement, Data Protection, Financial Crime and People. The Group is committed to ensuring it remains resilient, particularly in respect of IT capability. Significant investment has been undertaken to ensure it is well-protected in the face of the evolution of cyber threats. The Group relies on third party providers for a number of key services including in the provision of its savings offering and in respect of critical IT services. The robust oversight of third parties is seen as critical to overall resilience. Continued investment in people has been undertaken to ensure that risk exposures are minimised. This includes management of key dependency risk through effective succession planning, recruitment, development and retention strategies.	↑ The Group successfully navigated the transition to operating effectively in the pandemic environment. Despite new working arrangements, rapid redeployment of people to support additional processes such as payment holidays and the need to manage the IT challenges, the control environment remained robust with no material increase in risk events. However, with regulatory compliance standards continuing to rise, the Group is committed to ensuring that it remains compliant in its operational activities. There is potential that as expectations increase gaps may be identified which will need addressing to reduce inherent operational risk exposures.

B9. Directors' report

The directors of Paragon Banking Group PLC (registered number 2336032) submit their Report prepared in accordance with Schedule 7, which also includes additional disclosures made in accordance with the listing and disclosure rules of the FCA.

Certain information required by these requirements is included in other sections of this Annual Report and incorporated in this Directors' Report by reference. These items are discussed in detail at the end of this report.

Directors

The names of the directors of the company at the date of this report, together with biographical details, are given in Section B3.1. All the directors listed in that section were directors of the company throughout the year, apart from Peter Hill, who was appointed as a director on 27 October 2020. In addition, Finlay Williamson stepped down from the Board on 31 December 2020.

Directors' interests

The directors' interests in the shares of the Company are disclosed in the Directors' Remuneration Report in Section B7. There have been no changes in the directors' interests in the share capital of the Company since 30 September 2021.

Other than as outlined in the Directors' Remuneration Report in Section B7, the directors had no interests in securities issued by the Company. The directors have no interests in the shares or debentures of the Company's subsidiary companies.

A director has a statutory duty to avoid a situation in which he or she has, or can have, an interest that conflicts or possibly may conflict with the interests of the Company. A director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association of the Company (the 'Articles') by the other directors. The Articles include the relevant authorisation for directors to approve such conflicts.

None of the directors had, either during or at the end of the year, any material interest in any contract of significance with the Company or its subsidiaries. Further details on the directors' remuneration and service contracts / appointment letters can be found in the Directors' Remuneration Report in Section B7.

Directors' powers and appointment of directors

The appointment and replacement of the Company's directors is governed by the Articles, the Code, the Companies Act 2006 and related legislation, and the individual service contracts and terms of appointment of the directors. The powers of the directors, and their service contracts and terms of appointment, are described in the Corporate Governance section, Section B4.

The Articles may only be amended by special resolution of the Company's shareholders in a general meeting and were last amended in 2021. The Company's Articles set out the powers of the directors and rules governing the appointment and removal of directors. The Articles can be viewed at the Group's website at www.paragonbankinggroup.co.uk.

Under Article 83 of the Articles, all directors are required to submit themselves for reappointment annually, in accordance with the Code. Accordingly, all current directors will retire and seek reappointment at the AGM.

None of the directors has a service contract with the Company requiring more than 12 months' notice of termination to be given.

Directors' indemnity and insurance

Under Article 169 of the Articles, the Company has qualifying third party indemnity provisions for the benefit of its directors, for the purposes of section 234 of the Companies Act 2006, which were in place throughout the year and which remain in force at the date of this report, in the form of directors' and officers' liability insurance. The directors' and officers' liability insurance covers directors of all the Company's subsidiary entities.

Share capital and distributions

Share capital

Details of the issued share capital of the Company, together with details of movements in its issued share capital in the year, are given in note 37 to the accounts. The Company has one class of ordinary shares which carries no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. The rights and obligations attaching to ordinary shares are set out in the Articles.

There are no specific restrictions on the size of a member's holding or on the transfer of shares. Both of these matters are governed by the general provisions of the Articles and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares in respect of voting rights or which might result in restrictions on the transfer of securities.

Details of employee share schemes are set out in note 51 to the accounts. Votes attaching to shares held by the Group's employee benefit trust are not exercised at general meetings of the Company.

The Company presently has the authority to issue ordinary shares up to a value of £85.5 million and to make market purchases of up to 25.6 million £1 ordinary shares. These authorities expire at the conclusion of the forthcoming AGM on 2 March 2022 and resolutions will be put to that meeting proposing that they be renewed.

Purchase of own shares

The existing authority under section 724 of the Companies Act 2006, referred to above, given to the Company at the AGM on 24 February 2021 enables it to purchase treasury shares (a Company's own shares purchased by it to be held in treasury) of up to 10% of its issued share capital.

This authority will expire at the conclusion of the next AGM, and the Board considers it would be appropriate to renew this authority. It therefore intends to seek shareholder approval to purchase treasury shares of up to 10% of its issued share capital at the forthcoming AGM in line with current investor sentiment. Details of the resolution renewing the authority will be included in the Notice of AGM. Shares held as treasury shares can in the future be cancelled, re-sold or used to provide shares for employee share schemes.

On 8 June 2021 the Group announced a share buy-back programme of up to £40.0 million. The reasons for this purchase were set out in Section 3.3 of the Half-Yearly Report for the six months ended 31 March 2021. During the year 6,882,132 £1 ordinary shares (2020: nil) having an aggregate nominal value of £6,882,132 (2020: £nil), were purchased under this programme. Total consideration paid in the year was £37.7 million, including costs (2020: £nil). The Group anticipates that this programme will be completed following the announcement of the results for the year.

The number of treasury shares held at 30 September 2021 was 12,100,834 (2020: 5,218,702), representing 4.83% of the issued share capital excluding treasury shares (2020: 2.03%). The holdings at 30 September 2021 and 30 September 2020 represented the maximum holdings in the years then ended. The highest proportion of issued share capital excluding treasury shares held during the year was 4.83% (2020: 2.04%).

On 24 November 2021, after the year end, all these treasury shares were cancelled.

Dividends

The directors recommend a final dividend of 18.9 pence per share (2020: 14.4 pence per share) which would give a total dividend for the year of 26.1 pence per share (2020: 14.4 pence per share). An interim dividend of 7.2 pence per share was paid during the year (2020: nil pence per share).

Major shareholdings

Notifications of the following major voting interests in the Company's ordinary share capital, notifiable in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules, had been received by the Company as at 30 September 2021.

Shareholder	% Held	Notification date
M&G PLC	**6.6000**	22/10/19
Royal London Asset Management	**5.9980**	16/06/21
Liontrust Investment Partners LLP	**5.0700**	21/09/20
Dimensional Funds Advisors LP	**5.0020**	21/07/21
Franklin Templeton Fund Management	**5.0016**	02/08/21
Pendal Group (formerly J O Hambro Capital Management Limited)	**4.9809**	20/08/21

The percentages quoted above were calculated by reference to the Company's issued share capital at the date the holding was disclosed.

On 17 November 2021 Janus Henderson Group PLC notified the Company that it had increased its interest to 5.0000%.

As at 7 December 2021, no further changes had been notified to the Company.

Significant agreements

A change of control of the Company, following a takeover bid, may cause a number of agreements to which the Company is a party to take effect, alter or terminate. These include certain insurance policies and employee share plans.

The Company does not have any agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover of the Company, except that provisions of the Company's share based remuneration arrangements may cause outstanding awards and options to vest and become exercisable on a change of control, subject, where applicable, to the satisfaction of any performance conditions at that time and any required pro-rating of awards.

Research and Development

During the year, the Group undertook certain projects to develop its IT capabilities which met the definition of research and development set out in the guidelines issued by the Department of Business Innovation and Skills in 2010. Claims in respect of these activities were made in the Group's tax returns. The amounts involved were modest in the context of the Group accounts.

Political expenditure

During the year ended 30 September 2021 no political donations were made by any Group company (2020: £nil).

Auditors

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

The directors, having considered the requirements for rotation of auditors, the length of service of KPMG and the conduct of the audit concluded there was no present need to retender the audit. Therefore, a resolution for the reappointment of KPMG, who have expressed their willingness to continue in office, as the auditors of the Company is to be proposed at the forthcoming AGM, as well as a resolution to give the directors the authority to determine the auditors' remuneration.

The full text of the relevant resolutions is set out in the Notice of AGM accompanying this Annual Report. The evaluation process is described more fully in the Audit Committee Section B6.

Annual General Meeting

The AGM of the Company will take place on 2 March 2022 in London. A notice convening the AGM and outlining the resolutions to be proposed at the AGM is being circulated to shareholders with this Annual Report and Accounts.

In the event that Covid restrictions on gatherings or travel are imposed, the Group will make appropriate arrangements to comply with any such restrictions while ensuring that shareholders are able to participate in the meeting.

More information is set out in the Notice of AGM and further updates will be provided in due course, if necessary.

Listing Rule LR9.8.4

There are no matters which the Company is required to report under Listing Rule LR9.8.4, other than certain matters concerning its employee share ownership trust (note 39).

The Paragon Banking Group PLC Employee Trust is an independent trust which holds shares for the benefit of employees and former employees of the Group in order to satisfy awards under employee share plans. The Company funds the trust from time to time, to enable it to acquire shares to satisfy these awards. During the year, the trust made market purchases of 0.8 million ordinary shares (2020: 1.5 million). As the shares included in these arrangements are held on the consolidated balance sheet, this has no effect on the amounts reported by the Group.

The trustee will only vote on those shares in accordance with the instructions given to the trustee and in accordance with the terms of the trust deed. The trustee has waived the trust's right to dividends on all shares held within the trust.

Details of the shares held by the trust are set out in note 39 and details of the share-based remuneration arrangements are given in note 51.

Information presented in other sections

Certain information required to be included in a directors' report by Schedule 7 can be found in the other sections of the Annual Report, as described below. All of the information presented in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report. Readers are also referred to the cautionary statement on page 2.

- The Group's business activities, together with commentary on the likely future developments in the business of the Group (including the factors likely to affect future development and performance) and its summarised financial position is included in the Strategic Report (Section A)
- A description of the Group's financial risk management objectives and policies, including hedging policies, and its exposure to risks (including price / credit / liquidity / cash flow risk) arising from its use of financial instruments are set out in note 54 to the accounts and related notes
- Information concerning directors' contractual arrangements and entitlements under share-based remuneration arrangements is given in Section B7, the Directors' Remuneration Report
- An explanation of the Board's activities in relation to assessing and monitoring how the company has aligned with its stated purpose and culture can be found in Sections B1 and B3.3
- Information concerning employment practices, employee engagement, the Group's approach to diversity, the employment of disabled persons and the involvement of employees in the business, is given in Section A6.3 – 'People'
- Information on the Group's business relationships and how the directors have had regard to the need to foster these relationships with suppliers, customers and other stakeholders, and the effect of that regard, including on the principal decisions taken by the Group during the financial year (which is crucial to the long-term sustainability of the business), can be found in Section B4.3 of the Corporate Governance Report and in Section A6 of the Strategic Report
- Disclosures concerning greenhouse gas emissions are given in Section A6.4 – 'Environmental Issues'
- Disclosures concerning events taking place after the balance sheet date are set out in note 29 to the accounts
- Disclosures concerning the Group's ability to continue to adopt the going concern basis of accounting and the Group's viability statement are given in Section A5

Rule DTR7.2.1 of the Disclosure Guidance and Transparency Rules requires the Group's disclosures on Corporate Governance to be included in the Directors' Report. This information is presented in Sections B2, B3, B4, B5, B6, B7 and B8 and the information in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

Rule DTR4.1.5 of the Disclosure Guidance and Transparency Rules requires that the annual report of a listed company contains a management report containing certain prescribed information. This Directors' Report, including the other sections of the Annual Report incorporated by reference, comprises a management report for the Group for the year ended 30 September 2021, for the purposes of the Disclosure Guidance and Transparency Rules.

This section B9 of this Annual Report, together with the other sections of the Annual Report incorporated by reference, comprise a directors' report for the Company which has been drawn up and presented in accordance with, and in reliance upon, applicable English company law and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

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

Marius van Niekerk
Company Secretary
7 December 2021

B10. Statement of directors' responsibilities

in respect of financial statements

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

Company law requires the directors to prepare consolidated financial statements for the Group and separate financial statements for the Company in respect of each financial year. In respect of the financial statements for the year ended 30 September 2021, that law includes the Companies Act 2006 ('the Companies Act'). That law requires the directors to prepare the consolidated financial statements in accordance with IFRS in conformity with the requirements of the Companies Act and they have also elected to prepare the financial statements of the Company on the same basis.

In addition the UK Disclosure and Transparency Rules ('DTR') of the FCA requires that the consolidated financial statements for the current year are prepared in accordance with IFRS adopted pursuant to EU Regulation (EC) No 1606/2002 (the 'IAS Regulation') as it applies in the EU.

IAS 1 – 'Presentation of Financial Statements' requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's ('IASB') 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

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

- Select suitable accounting policies and apply them consistently
- Make judgements and estimates that are reasonable, relevant and reliable
- State whether the consolidated and company financial statements have been prepared in accordance with IFRS in conformity with the requirements of the Companies Act
- State whether the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU pursuant to the IAS Regulation
- Assess the ability of the Group and the Company to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they intend to liquidate the Company and / or the Group or to cease operation or they have no realistic alternative to doing so
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

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

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

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

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

Confirmation by the Board of Directors

The Board of Directors currently comprises:

F S Clutterbuck (Chair of the Board)	B A Ridpath (Non-executive director)
N S Terrington (CEO)	G H Yorston (Non-excutive director)
R J Woodman (CFO)	A C M Morris (Non-executive director)
H R Tudor (Senior Independant Director)	P A Hill (Non-executive director)

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

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

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

Signed on behalf of the Board

Marius van Niekerk
Company Secretary
7 December 2021

As part of our Pride at Paragon celebrations, employees walked together at the 2021 Birmingham Pride Carnival Parade in support of LGBTQ+ colleagues.