B. Corporate Governance

How the Group is run and how risk is managed

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

B1. Chair's statement on corporate governance

Dear Shareholder

I am delighted to introduce the Company's corporate governance report, in what will be our first year reporting in compliance with the 2018 UK Corporate Governance Code ('the Code'). The Code was applicable to the Company with effect from 1 October 2019 and presented the Board with an opportunity to review and restructure our governance framework, which you can read about in Section B4. As a board we recognise that a robust governance structure and effective risk management framework are integral to delivering sustainable growth and shareholder returns. An overview of our activities as a board and a summary of the key financial, operational and strategic matters considered throughout the financial year is set out in Section B3.3.

Stakeholder engagement

This year the Board has specifically reviewed its duty to promote the success of the Group and the Company, whilst considering the broader implications for stakeholders. You can find out more about how our approach enables us to create value for all stakeholders in Section A2 of our Strategic Report.

I am particularly proud of our People Forum, which is currently made up of 22 employee members across six different locations who represent their colleagues from all business areas on a range of topics and concerns that are raised by employees during the year. The People Director updates the Nomination Committee on the outcome of these meetings and has developed 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 to all employees, via the People Forum.

Hugo Tudor and I attended a meeting of the People Forum in November 2019 where we focussed on executive remuneration and pay and reward more generally. In addition, Hugo and Graeme Yorston attended the People Forum in September 2020, where the progress made over the past year was reviewed, with a particular focus on the measures taken to manage the impact of Covid-19 on employees. The People Forum representatives commented that they appreciated this engagement and were pleased to hear from members of the Board and have the opportunity to provide direct feedback.

I have had the opportunity during the year, with some of my non-executive colleagues, to meet with representatives of the PRA. I found this a valuable opportunity to understand how the regulator views the Group and their priorities as a significant stakeholder in our business.

Our Remuneration Policy and Remuneration Report were approved at the AGM in February 2020, but each had a 'significant vote' against. We have continued to engage with shareholders to address their concerns and further details of this are given in the Directors' Remuneration Report in Section B7.1.

Culture

Our purpose, to support the ambitions of the people and businesses of the UK by delivering specialist financial services, is underpinned by our culture and values (which are set out in Section A2). During the year, as part of the 2019/20 Compliance Monitoring Plan, an external review focussed on assessing culture within the Group was conducted. I am delighted that this review highlighted the strong collaborative culture within Paragon, which was cited by many employees as their principal reason for staying with the Group. It is a clear differentiator from an employee engagement perspective and one the Group is looking to enhance further.

The review also highlighted areas we can continue to develop such as: more frequent employee engagement surveys, improved alignment of acquired businesses and a further promotion of our values. I am pleased to report that these activities are already well underway and, with as many as 90% of our employees working remotely during the Covid-19 lockdown, we have made a step change in utilising technology to encourage more frequent 'check-ins' via Microsoft Teams and promote increased levels of virtual learning. There has also been a strong focus on employee well-being throughout this challenging period.

Diversity and Inclusion

I made it very clear last year that one of my personal goals was to ensure that both the Board and Group are diverse and reflective of the communities in which we are based. I can confirm that the Board has met its target of at least a third female representation on the Board, in line with the Hampton-Alexander Review, following the appointment of Alison Morris to the Board in March 2020. This year also saw the launch of the Paragon Equality, Diversity and Inclusion network. The employee committee which will run the network was appointed following a two-stage interview process in August. Both the volume and quality of applications were very impressive. The network was formally launched to all employees in October 2020.

Board effectiveness

During 2019 the Board undertook its triennial externally facilitated board evaluation, carried out by Independent Board Evaluation. As a result, the Board developed a comprehensive action plan based on the outputs which included:

- Enhanced training for non-executive directors (Section B4.4)
- Enhanced use of non-executive directors' skills matrix in the recruitment process– further detail on this can be found in Section B4.4.
- Six-monthly training sessions delivered to the Board based on strategic priorities and market developments (Section B4.4)
- Greater visibility of non-financial issues (ie customer, employee and competition)
- Improved succession planning (Section B4).
- Several deep dives from the business, with greater access to senior management (see Section B3.3 for more detail)

Excellent progress was made in relation to all of these actions over the past year and we have recently completed our own annual internally-led assessment to ensure that we, as a board, continue to operate responsibly and effectively. Further detail on the 2020 evaluation actions and outputs can be found in section B4.4.

As mentioned above, Alison Morris joined the Board in March 2020, subsequently becoming Audit Committee Chair. Alison is a highly experienced audit specialist and her skills, expertise and capabilities are of great benefit to the Group. Peter Hill was appointed to the Board on 27 October 2020. He 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 and a proven track record in risk oversight, gained during his executive and non-executive career.

The Group's AGM will be held on 24 February 2021 and I look forward to welcoming shareholders, subject to any restrictions which might still be in place as a result of the Covid-19 situation.

Fiona Clutterbuck

Chair of the Board

3 December 2020

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') and which is publicly available at www.frc.org.uk. Throughout the year ended 30 September 2020, 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 10 of the Code to extend a director's tenure to more than nine years for succession planning purposes and to ensure the appointment of a suitable replacement non-executive director, as set out below. In February 2020, Peter Hartill's length of service reached nine years. However, the Board and Nomination Committee considered Peter's re-appointment beyond nine years, and agreed that, due to his independence, skills and experience, Peter continued to make an effective contribution as a non-executive director and therefore agreed to extend Peter's tenure until a suitable replacement could be found and an appropriate hand-over had taken place. Peter stepped down from the Board with effect from 30 September 2020 following a successful handover of his duties as Chair of the Audit Committee to Alison Morris, who joined the Board in the year.

The Group's 2020 annual report is the first to be produced since our adoption of the new Code and the table below indicates the relevant sections of this report which describe how the Code's 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 aligns with its culture, has been established and is 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.	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 the 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. As part of an annual evaluation the Board, and each individual director, considers composition, diversity and effectiveness.	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 clearly linked to 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.	B7
R. Directors should 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.

1. Fiona J Clutterbuck
Chair of the Board (Age 62)

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 (Finnish listed financial services company) and a member of its audit committee

Non-executive director and senior independent director of M&G plc

Non-executive director of Hargreaves Lansdown PLC and its audit committee chair (to 08/10/2020)

2. Nigel S Terrington
Chief Executive (Age 60)

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

Experience and expertise*

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 has been Chair of the Council of Mortgage Lenders ('CML'), Chair of the Intermediary Mortgage Lenders Association ('IMLA'), Chair of the FLA Consumer Finance Division, a member of the Mortgage Board of UKF and a Board member of the FLA.

Nigel is an associate of the Chartered Institute of Bankers. In 2017, he received an Honorary Doctorate from Birmingham City University for services to the finance industry.

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.

Current external appointments:

Board member of UKF

Chairman of UKF'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 55)

Appointed to the Board as Director of Corporate Development in 2012 and became Chief Financial Officer in June 2014

Experience and expertise*

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 M&A programme.

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

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.

Current external appointments:

None

4. Hugo R Tudor
Non-executive director (Age 57)

Non-executive director since 2014 and became Senior Independent Director in July 2020

Appointed in 2014 – six years served

Skills and 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 (from 24/09/20) and Risk and Compliance Committees

Current external appointments

Director: Damus Capital Limited

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

*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

John A Heron resigned from the Board on 6 January 2020 and Peter J N Hartill resigned from the Board on 30 September 2020.

5. Alison C M Morris

Non-executive director (Age 61)

Appointed in 2020 – one year served

Skills and 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 (from 24/09/20, member since appointment)

Member: Remuneration Committee, Risk and Compliance Committee

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, part of the M&G plc group

6. Finlay F Williamson

Non-executive director (Age 60)

Appointed in 2017 – three years served

Not seeking re-election at 2021 AGM†

Skills and experience

Finlay Williamson was Finance Director of Virgin Money between 2009 and 2014, where he was responsible for supporting the design and delivery of the company's growth strategy, including the assessment of potential markets, the development of key propositions and the pursuit of non-organic opportunities.

Prior to joining Virgin Money, Finlay had a long career at Royal Bank of Scotland ('RBS'), where he held a number of senior finance roles, latterly as Finance Director for RBS's Manufacturing and Retail Direct divisions.

He was appointed to the Board of Paragon Bank PLC in February 2015 and was Chair of its Risk and Compliance Committee from that date.

Finlay is a Chartered Accountant and a fellow of the Chartered Institute of Bankers in Scotland.

Specific areas of expertise*

- In depth knowledge and experience of financial services sector, accounting and risk operations
- Detailed experience of overseeing the development of risk management in the Group

Committee membership

Chair: Risk and Compliance Committee

Member: Audit Committee

Current external appointments

Non-executive director of Hampden & Co PLC

7. Barbara A Ridpath

Non-executive director (Age 64)

Appointed in 2017 – three years served

Skills and 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 of 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')

8. Graeme H Yorston

Non-executive director (Age 63)

Appointed in 2017 – three years served

Skills and 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 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
- Detailed experience of overseeing IT systems

Committee membership

Member: Nomination, Remuneration and Risk and Compliance Committees

Current external appointments

None

9. Peter A Hill

Non-executive director (Age 59)

Appointed in 2020 – After the end of the financial year

Skills and experience

Peter Hill was the CEO of Leeds Building Society from 2011 until his retirement in 2019. Peter was also chairman of the Council of Mortgage Lenders for three years and a main board member of UK Finance.

Specific areas of expertise*

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

Committee membership

Member: Risk and Compliance 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

†Finlay Williamson has announced his intention to step down from the Board on 31 December 2020.

B3.2 Executive Committee

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

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

Richard J 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

Peter Shorthouse
Treasury and Structured Finance Director
Since 2010

Deborah Bateman
External Relations Director
Since 2009

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.

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. The more significant of these included:

- Considering the impact of Covid-19, Brexit, and other macro-economic uncertainties on the Group
- Appointment of a new Audit Committee Chair and SID, and other changes to the structure of its committees
- Governance regulation changes reflecting the Code and the Companies (Miscellaneous Reporting) Regulations 2018 ('C(MR)R')

In addition, it regularly receives and reviews reports on matters prior to meetings, such as strategic matters, 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 the Board's committees and investor relations and shareholder feedback.

Significant other matters discussed are set out below by theme:

Topic	Meeting
Covid-19	
Upon the outbreak of the pandemic in March 2020, additional board meetings were arranged, and the Board received regular, additional updates from the Chair and ExCo. Presentations focussed on: strategy; governance; the macro environment, market uncertainties; available government initiatives; new lending activity; deposit strategy and activity; operational response and its impact on stakeholders; people response; communication (external and internal); risk management; and the Group's commercial status and approach. A significant focus in these discussions was the level of engagement with, and support being provided to, the Group's customers.	Mar 2020
Approval of the decision to apply for CBILS funding.	Apr 2020
Commencement of lending under BBLS was approved.	May 2020
Corporate governance	
Approved a restructure of the Group's executive committee governance structure. More detail on the restructure can be found in section B4.	Jan 2020
Approved a new Corporate Governance Policy Framework. More detail on the framework can be found in section B4.	Feb 2020
Following the 2020 AGM at which the resolutions for the Directors Remuneration Policy and Report received the support of 71.02% and 74.33% of shareholders respectively, and therefore are considered under the Code to have received a significant vote against, the Board received regular updates from the Remuneration Committee Chair on the key actions taken by the Remuneration Committee that reflected on the feedback from shareholders in respect of the resolutions put to the AGM.	Feb 2020 / Ongoing
Approved the Group's updated purpose.	Apr 2020
Received and participated in a culture deep dive review.	Jul 2020
Received a presentation on customer insights from the External Relations Director. The session was an opportunity for enhanced discussion on customer, employee and competition issues.	Jul 2020
Business strategy	
A major investment bank provided a market update on the financial services sector.	Feb 2020
Deep dive reviews into the mortgage and consumer finance operations were provided to the Board by the managing directors of the businesses. This was a further opportunity for the Board to meet key management individuals beyond strategy sessions, thereby enhancing engagement with senior management.	Apr 2020
Corporate update: The Board received quarterly updates on key project plans.	Jun 2020

Topic	Meeting
Risk and regulation	
Received training on, and approved, the ICAAP and Recovery Plan.	Mar 2020
Approved the submission of IRB Module 1 to the regulator. The Board noted good progress has been made with IRB implementation across the Group.	Mar 2020
Received further training on IRB.	Jun 2020
Completed a cyber security questionnaire (provided by, and required to be submitted to, the PRA every four years).	May 2020
Considered and approved the Group's principal risks.	Aug 2020
The General Counsel and Company Secretary provided the Board with a legal and regulatory training session which covered topics such as MAR and section 172 duties.	Sep 2020
The CRO reported on a deep dive on a review of the Group's product lifecycle.	Sep 2020

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.

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 from them are reported to the meeting in question 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	12 (12)	-	4 (4)	5 (5)	5 (5)
Nigel S Terrington	12 (12)	-	-	-	-
Richard J Woodman	12 (12)	-	-	-	-
John A Heron	3 (3)	-	-	-	-
Peter J N Hartill	12 (12)	5 (5)	4 (4)	4 (5)	5 (5)
Alison C M Morris	8 (8)	4 (4)	2 (2)	3 (3)	-
Hugo R Tudor	12 (12)	5 (5)	4 (4)	5 (5)	0 (0)
Barbara A Ridpath	12 (12)	5 (5)	4 (4)	-	5 (5)
Finlay F Williamson	12 (12)	5 (5)	4 (4)	-	-
Graeme H Yorston	12 (12)	-	4 (4)	5 (5)	5 (5)

Directors also attended an annual two-day strategy event, held online, 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.

In addition to the formal meetings shown in the table above, the Board held regular, ad hoc meetings during the height of the Covid-19 pandemic to consider various matters, including:

- Operational, strategic and financial performance, in particular the liquidity, funding and capital position of the Group, in each of the Group's business areas
- The impact on shareholders, stakeholders and customers
- The impact on employees, working arrangements and the discussion of employee survey results and relevant actions
- The Group's application for authorisation under the CBILS and BBLS initiatives
- The decision to not declare an interim dividend for the year at the time of the half-year results announcement (discussed further in section A4.3.1)

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

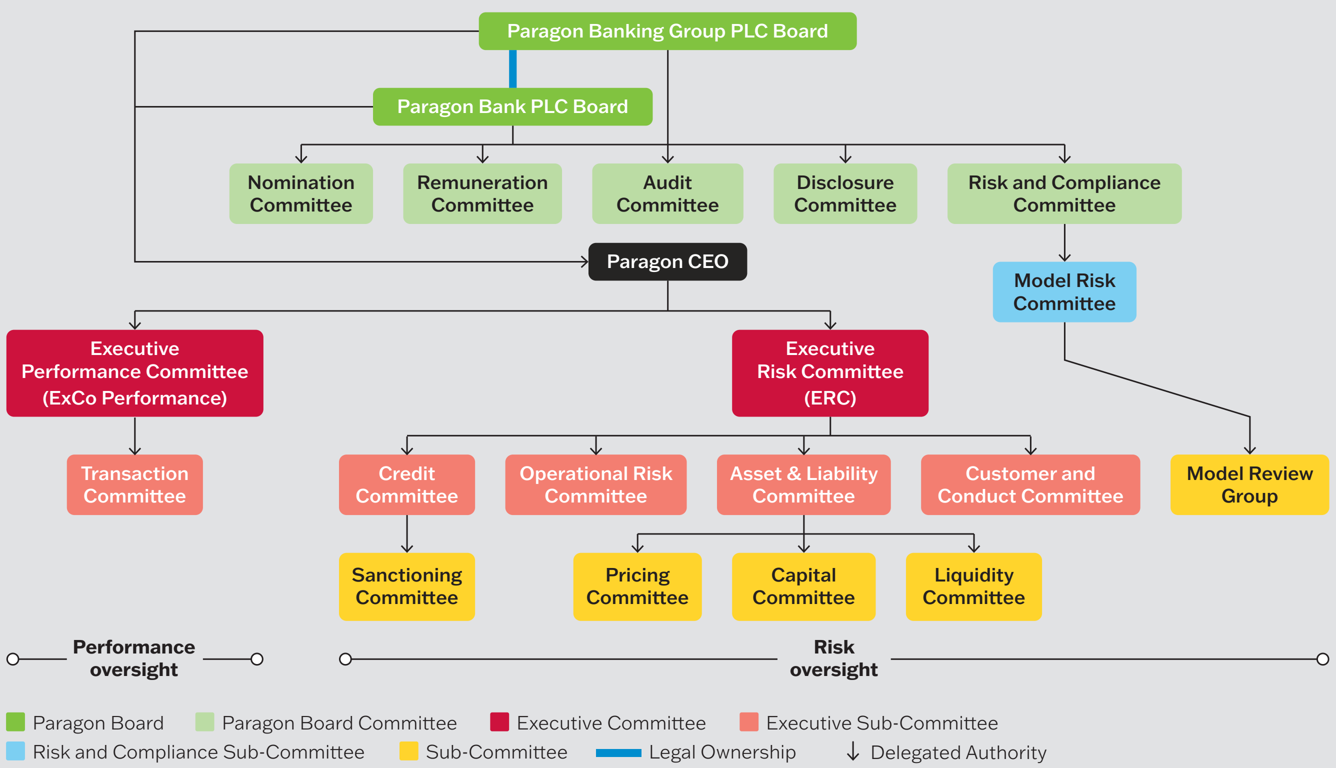
Board leadership, group purpose and the Corporate Governance Policy Framework

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 committees 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	F F Williamson	F J Clutterbuck
Minimum number of meetings	4	3	4	2
Further information	Section B6	Section B7	Section B8	Section B5

*P J N Hartill until June 2020.

Members	Independent non-executive	Audit	Remuneration	Risk and Compliance	Nomination
F J Clutterbuck	Until 10 May 2018*	No	Yes	Yes	Yes
P J N Hartill	Yes	Until 30 September 2020	Until 30 September 2020	Until 30 September 2020	Until 30 September 2020
H R Tudor	Yes	Yes	Yes	Yes	From 24 September 2020
B A Ridpath	Yes	Yes	No	Yes	Yes
F F Williamson	Yes	Yes	No	Yes	No
G H Yorston	Yes	No	Yes	Yes	Yes
A C M Morris	Yes	From 26 March 2020	From 26 March 2020	From 26 March 2020	No

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

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

Finlay Williamson will be stepping down from the Board on 31 December 2020.

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.

Executive committee structures

During the financial year, the Board reviewed the Group's broader committee structure, processes and procedures in order to enhance the wider governance framework and to further align it with the new edition of the Code. As a result, the responsibilities of the existing Executive Committee were divided between the Executive Performance Committee ('Performance ExCo') and the Executive Risk Committee ('ERC').

The ERC was established to support the CEO with further embedding the Group's risk management framework, monitoring adherence to risk appetite statements and identifying, assessing and controlling the principal risks within the Group and reporting the same to the Board.

The Performance ExCo continues to provide 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.

Sub-committees

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 by the Idem Capital business, where these are not large enough to require consideration at the Board, and also to approve, within delegated limits, wholesale term and/or revolving credit facilities proposed by the Group's Structured Lending operation.

Four executive 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 continue to be reviewed 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 supportive culture, which has been noted as part of its Gold Investors in People accreditation (see Section A6.3.).

During the financial year, a review of the Group's culture was undertaken by PwC, which forms part of the Group's Compliance Monitoring Plan, a risk-based programme to review business activity in line with regulatory requirements, which is reviewed by the Board annually. The culture review outlined key themes such as staff communications, performance management processes and reward and the culture framework. Proposed actions to facilitate continuous improvement of the Group's culture were considered by the Risk and Compliance Committee and any necessary actions were considered by the Board. The first annual review of the Group's culture was also considered at the two-day strategy event in July 2020.

The welfare, development and engagement of employees is central to the Group's culture. There is a robust Wellbeing Strategy in place with an Emotional Wellbeing Team who are fully supported and invested in by keeping their knowledge current. The Group is a member of 'This is Me', which is a campaign supported by the Lord Mayor of London's Appeal to provide employers with the tools to change cultures relating to mental health. A central focus of the Group's Covid-19 response was the protection and support of its people. Additional welfare measures were introduced, which are described in Section A4.5.1. During the year a number of workshops have been held on increasing education in areas such as the menopause, health and well-being, nutrition and weight management. See also Section A6.3 for more information on how the Group invests in its people.

To encourage employee participation within our communities, employees have a paid annual volunteer day to use at a charity of their choice. Further detail on other charitable activities can be found at A6.5.

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, the CEO and the SID 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 SID, 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.

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 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 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 was appointed as the SID on 23 July 2020. The SID provides a sounding board for the Chair and serves as an intermediary for the other directors when necessary. The SID is available to shareholders if they have concerns for which contact through the normal channels has failed to resolve or for which such contact is inappropriate. The SID also leads the appraisal of the Chair's performance at least annually with the non-executive directors.

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. Both the appointment and removal of the Company Secretary are matters reserved for the Board. Marius van Niekerk was appointed as Company Secretary on 24 June 2020.

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

Documentation referred to in the Corporate Governance section is 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

While good corporate governance is important to the Board, so is maintaining a reputation for high standards of business conduct in all of the Group's operations, 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 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.

The Board confirms that, for the year ended 30 September 2020, 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.

From 2020, companies have been 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 and how this is aligned to the Group's strategic priorities.

Shareholders

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

How we engage and / or monitor

- Our ongoing Investor Relations Programme, where over fifty meetings were held with shareholders
- The Director of External Relations updates each meeting of the Executive Committee on shareholder movements and shareholder interaction
- The Chair and Chair of the Remuneration Committee have had a number of meetings with individual shareholders and shareholder advisory groups

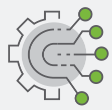
Outcome

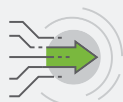
- The summary of shareholder feedback provided to the Board helps to align the Group's strategy with the interests of shareholders
- Shareholder feedback was taken into account when drafting and implementing the Remuneration Policy
- All resolutions approved by our shareholders at the AGM in February 2020
- Follow up meetings with shareholders following views expressed in the AGM process
- Final dividend of 14.4 pence per share

Further information on the Group's investor relations activities is given below. Discussions with investors on remuneration matters are discussed in the Remuneration Report (Section B7).


Capital management


Growth


Diversification


Specialisation

Customers

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

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
- Deep dive presentation on Customer Insights from the Director of External Relations
- Customer metrics were introduced as a key element of the Performance Share Plan ('PSP') from 2020

Specialisation

Sustainability

Diversification

Outcome

- Customer support designated as a strategic priority in the Group's Covid-19 response
- Customer feedback on key product lines, as measured by NPS, has remained strong
- Web portal updated to reflect specific customer feedback
- Greater understanding of our customers and their priorities refines product offerings, documentation and processes
- Roadmap to improve our savings maturity process is underway

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)

How we engage and / or monitor

- Regular employee Pulse Surveys and employee check-ins conducted
- The People Director updates the Board and the Executive Committee on employee feedback from surveys and from the People Forum, as well as other metrics
- The Board received a deep dive presentation on culture from the People Director
- Members of the Board attend the People Forum at least twice a year
- Executive Committee members with responsibility for gender diversity and wider diversity have been designated and regularly report progress on these matters
- Nomination Committee receives six-monthly succession planning updates from the People Director
- People metrics were introduced as a key element of the PSP from 2020

Sustainability

Outcome

- Enhanced support for employees impacted by Covid-19 put in place
- The feedback from employee surveys enables the Board to support and understand employees.
- Tailored career development programmes embedded across the Group for apprentices through to high potential senior leaders
- Internal appointment of two Executive Committee appointments; CRO and Managing Director – Commercial Lending
- Increased communication to employees regarding culture and values
- Enhanced maternity provision and pension contributions in the year
- Creation of the Equality, Diversity and Inclusion network

Further information on the involvement of the Group's people and the impact of policies on them, including steps taken to support them during Covid-19, 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)

Capital management

Sustainability

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
- The Executive Committee and 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 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

Outcome

- The Board approved the submission of IRB Module 1 to the PRA in March 2020
- 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)

Sustainability

How we engage and / or monitor

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

Outcome

- During the first nine months of 2020 our employees raised over £25,000 for this year's nominated charity, Macmillan Cancer Support
- The Board approved the donation of £100,000 across four different organisations supporting people impacted by Covid-19

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

Environment and climate change

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

How we engage and / or monitor

- The Board took part in an Insight session on climate change in the context of financial services.
- Reporting to the Board on potential risks and business impacts from climate change
- 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

Sustainability

Outcome

- Climate Change has been designated as a principal risk for the Group in the year
- The Board established new objectives against current energy performance to further reduce consumption

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)

How we engage and / or monitor

- Key business partner relationships, including intermediaries and suppliers are identified, actively monitored and reported to the Board and Executive Committee

Sustainability

Outcome

- This year the Group published a new Supplier Code of Conduct which sets out our overall approach to supplier engagement and corporate responsibility
- 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'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 general meetings 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 2021 AGM, scheduled for February, may be affected by Covid-19 restrictions on gatherings. The Group will make appropriate arrangements to comply with any such restrictions but remains mindful of the importance of ensuring that shareholders have sufficient opportunity to express their views to the Board.

The Chair, CEO and CFO have a full programme of meetings with institutional investors during the year. During the year ended 30 September 2020 meetings were held with investors from the UK, Europe and North America.

The Chair, the Chair of the Remuneration Committee and the People Director have had a number of meetings with shareholders and shareholder advisory groups covering governance and remuneration matters (as set out in the Remuneration Report).

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 SID 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 SID and shareholders can be arranged via the Company Secretary.

The Director of External Relations updates each meeting of the executive committee on shareholder movements and shareholder interaction.

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 external review carried out in 2019. The next external evaluation will be conducted by the end of 2022.

2019 External evaluation findings – Progress report

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

Recommendation / action	Progress update
Board	
Board composition and induction	
Certain skills gaps to be filled through future appointments with an emphasis on public company experience. Skills matrix to be updated and regularly reviewed by Nomination Committee, with enhanced training on bespoke topics for non-executive directors.	Alison Morris was appointed to the Board as a non-executive director in March 2020, with Peter Hill appointed a non-executive director following the year end. Updated skills matrices completed by individual Board members and revised to reflect requirements for future non-executive director appointments. Results were then calibrated by the Chair and CEO in conjunction with the Company Secretary and People Director to inform specific training needs and future skills required for the appropriate Board composition. A Board training plan was also agreed and implemented. Ongoing training was provided to the Board based on strategic priorities and market developments. The Board also received deep dives from the business, which provided greater access to senior management. See Board activities section B3.3 for more details.
Succession planning	
Succession plans to be enhanced with an emphasis on recruiting for public company experience and training internal candidates. A long-serving executive team requires enhanced succession planning with the depth and range of executive team experience to be enhanced. The Board will identify opportunities to meet high-potential individuals throughout the business as part of its greater focus on succession planning.	Succession plans were enhanced. ExCo members and high potential senior individuals across the organisation were, and continue to be, given increased access to the Board. Additionally, the Covid-19 updates to the Board that commenced in March 2020, included updates from ExCo members on the pertinent points as regards the impact of Covid-19 on their respective business areas, and the steps undertaken to ensure operational resilience and risk mitigation. The Nomination Committee agreed a proposal to further document a Board succession plan for the CEO and CFO roles as well as tracking the non-executive director development required to cover committee chair responsibilities. Broader succession plans for ExCo, their direct reports and key senior management roles are reviewed by the Nomination Committee on an ongoing basis.

Recommendation / action	Progress update
Board	
Agendas, papers and presentations	
Maximising efficiency through condensing presentations, challenging the need for extraneous detail and ensuring all papers are distributed well in advance of meetings. Revised templates to be used to ensure a standard approach to presentations with an appropriate limit on length. Enhanced metrics for non-financial issues to be produced, particularly in relation to customers and employees. Work has commenced on revising presentation methods and styles and will continue during the year.	A new board paper template was agreed and implemented. The template requires authors to focus their presentation on key areas eg authors are asked to consider the impact of their proposals through a Section 172 (director's duties) lens. The length and composition of papers is monitored on an ongoing basis and feedback given to ensure they continue to be appropriate. A new customer insights section has been incorporated into the CEO report to the Board, together with enhanced data collated through customer surveys. Customer NPS data has also been enhanced. Additional People Forum governance and engagement was implemented, and the outputs included in the People Director's updates to the Nomination Committee, as appropriate. ExCo updates to the Board during the pandemic focussed on customer and employee engagement, in particular. Phase 1 of the corporate governance restructure was finalised during the year, which saw the establishment of the ERC. Phase 2 of the restructure will focus on the committees that sit below the Performance ExCo and ERC, to ensure continued enhancements to reporting.
Board and Committee interaction	
Enhanced committee reporting to be implemented. Greater challenge in all meetings to be encouraged, with sufficient time allocated for each topic as appropriate.	An enhanced focus on Section 172 considerations in the new board paper template and agendas encourages improved reporting via the committees to the Board. Together with improved reporting, more structured agenda planning and better allocation of timings for items continues to facilitate enhanced challenge and sufficient time for more pertinent and pressing matters to be discussed.
Nomination Committee	
Succession planning	
Longer term succession planning for the executive directors to be a key focus for the year ahead. This will be incorporated, in detail, into the Committee's annual timetable.	See succession planning section above.

Recommendation / action	Progress update
Risk and Compliance Committee	
Committee papers and segregation	
Tighter procedure around committee papers and discipline around the separation between the committee and main board should be adopted. Work has commenced to revise presentation methods and styles as noted above, and this will be particularly emphasised for the Risk and Compliance Committee.	Following Phase 1 of the governance restructure implemented during the year, the former executive risk sub-committees now report directly to the ERC rather than RCC. An outcome of the restructure is clear delegation and reporting lines, with defined separation between board and executive governance, ensuring a clear division of responsibilities. Additionally, this allows for appropriate information flows up the delegation line, with a progressive decrease in detail / volume of information as appropriate eg ERC assesses more detailed business risks than RCC, which focusses on more strategic risks to the Group. The revised governance structure will complement the proposed new Enterprise-wide Risk Management Framework, which is in the process of being designed and rolled out, with all risks appropriately mapped to the relevant / most appropriate sub-committees. Finally, the ERC reviews and approves all papers (subject to any delegated authority) that are recommended to RCC and / or Board for formal approval.

2020 internal evaluation

The output of the 2019 external 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, the following sources were also considered: i) the 2018 internal evaluation; ii) the Code; and iii) FRC guidance.

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

Issue	Recommendation / action
Board	
IT and digital experience	
The need for more IT and digital experience was a suggestion raised by some Board members.	A discussion should take place around how this will be achieved, and the Board is already considering options available to it.
Skills matrices	
More formality and reference to skills matrix required for future non-executive director appointments.	The importance of the skills matrix in determining candidates in the future should be emphasised.
Senior management contact	
More contact with the senior executives who are running the businesses is desired.	Once a settled business rhythm resumes, the Board should arrange to receive presentations from all ExCo members, which should be regularly scheduled into the Board diary. This was the intention for the current financial year but logistical challenges associated with Covid-19 at times prevented it.
Mentoring by non-executives	
Non-executive director mentoring of high potential individuals was suggested.	The suggestion that non-executive directors could mentor high potential individuals should be considered.

Individual director evaluations considered whether each director continued to contribute effectively and demonstrated commitment to the role eg through 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 2020 that considered remuneration packages for 2020/21.

The performance evaluation of the Chair of the Board was carried out by the non-executive directors led by the SID (in the Chair's absence).

The Chair of the Board appraised the performance of the non-executive directors during August 2020, 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 2020. 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 Annual General Meeting 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 Annual General Meeting.

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 Alison Morris has had meetings with senior employees in the Finance and Internal Audit areas to brief her on the work of those areas and the particular issues within those areas most relevant to her position as Chair of the Audit Committee. This process was facilitated and supported by Peter Hartill, the outgoing Chair of the Committee, as part of the handover process and has continued throughout the year end process.

Development

Further to the 2019 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. The output from the skills matrix was reviewed by the Board and individuals were given a further opportunity to update their self-assessment scores in order to ensure consistency of approach.

Following this, a number of topics have been agreed for board development over the coming year, 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, governance and professional development. All directors completed a variety of regular training modules that are mandatory for all employees.

Further business insight / awareness sessions and deep dives on particular areas are held regularly to enable non-executive directors to continue to contribute effectively at board meetings on account of their enhanced understanding of key topics.

B4.5 Whistleblowing

The Group has an established procedure whereby employees can make disclosures regarding malpractice 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.

There is a right of appeal, currently to the Chair of the Board, where the employee is dissatisfied with the outcome.

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 2020, a small number of whistleblowing incidents were investigated. Each matter was fully reviewed by the Whistleblowing Committee and subsequently considered by the Board. The investigation found that none of the incidents were material in nature. Whilst actions did arise following the investigations, these were minor.

B5. Nomination Committee

B5.1 Introduction by the Chair

Dear Shareholder

The Nomination Committee is the channel used by the Board to consider certain governance matters and sustainability issues. These are vital issues for the Board and the Group and this has seen the Committee's workload increase rapidly over recent years, with additional formal duties taken on under the new Code.

During the year the Committee has overseen the appointment of a new Audit Committee Chair and Senior Independent Director. It also supervised the initial stages of the process to appoint a new Chair of the Risk and Compliance Committee, which was finalised after the year end.

These roles are central to the governance of the Group and the primary aims of the Committee in recruiting for them were to ensure that the person appointed has the requisite skills and knowledge for the role, benchmarked against the board skills matrix; that there was a strong cultural fit with the Group; and that an orderly handover process would be achieved. When determining the outcome for each of these appointments, consideration was also given to the diversity of the Board as a whole.

These appointments further strengthen the diversity of the Board as well as provide it with the skills it requires to oversee the future strategic development of the business.

The Committee's remit also covers people-related sustainability issues, with the introduction of employee voice arrangements and the Group's EDI network in the period being particularly noteworthy. I look forward with anticipation to the contribution these initiatives will make to the Group's strategy and culture in the future.

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

Fiona Clutterbuck
Chair of the Board and the Nomination Committee
3 December 2020

B5.2 Operation of the Committee

The Nomination Committee is chaired by the Chair of the Board and includes four 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, following a rigorous external search the Committee appointed a new Audit Committee Chair, Alison Morris, to succeed Peter Hartill who retired in September 2020. Alison followed a structured induction and handover both prior to starting her role and in the first few months and this will continue throughout her first year of appointment.

Hugo Tudor, an independent non-executive director, was appointed as Senior Independent Director ('SID') in July 2020, due to Peter Hartill's planned retirement. The Committee undertook a review of both internal and external candidates for this role and determined that Hugo's experience and knowledge was the best fit for this appointment. This determination was based on a series of external discussions with potential external candidates and a 'role play' scenario whereby Hugo deputised for the Chair at a Board meeting, as if the Chair was unavailable, this being a role that might potentially fall to the SID in certain circumstances.

The Committee also conducted a search for a new Risk and Compliance Committee Chair to replace Finlay Williamson who will step down from the Board on 31 December 2020. As part of the overall board succession plan and following the Board triennial external evaluation in July 2019, the Committee identified that the Board would benefit from recruiting an experienced non-executive director who would also bring senior executive experience with a strong customer, operational and technology focus.

In October 2020, following a number of interviews and after receiving regulatory approval, the Group announced that Peter Hill was appointed to the Board with immediate effect and will become Risk and Compliance Committee Chair effective from 31 December 2020 following a period of transition and handover. 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. Peter's experience and other appointments are set out in the board profiles in Section B3.1.

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.

Executive appointments

The Committee oversaw appointments to the Executive Committee during the period and ensured that the search and selection processes were robust and that the candidates had demonstrably relevant skills and experience.

Dave Newcombe was appointed as Managing Director - Commercial Lending in October 2019. He has been a member of the Executive Committee since 2015, having held a number of senior positions across the Group throughout his 32 year career.

Marius Van Niekerk joined the Group and the Executive Committee in October 2019 as General Counsel and Company Secretary. He brings extensive board, regulatory and legal experience to the Group.

Richard Rowntree joined the Group and Executive Committee in January 2020, succeeding John Heron as Managing Director – Mortgages. Richard was previously the Managing Director of Mortgages for Bank of Ireland and he has almost three decades of retail banking leadership experience across five major UK banks.

Ben Whibley was appointed as CRO and member of the Executive Committee in April 2020, following Malcolm Hayes' departure. Ben joined the Group in 2015 and was previously CRO of Paragon Bank PLC and Deputy CRO of the Group. Ben's appointment to the role of CRO illustrates the effectiveness of the Group's succession planning and senior leadership development programme.

Succession planning

Succession plans for the Board 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. The Committee has received reports during the year on the Group's senior leadership development programme and will continue to monitor this on a regular basis. Further information can be found in Section A6.3.

Risk mitigation for the loss of senior employees will continue 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 so 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 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 September 2019 meeting initially following the outputs from the Strategy Event in June 2019. This was further reviewed and updated by the Committee in February 2020 and subsequently approved by the Board.

The matrix reflects the strategy of the Group becoming a technology-enabled specialist bank and includes skills consideration on such matters 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; customer insight and understanding the specialist lending sector.

The board skills matrix is reviewed annually by the Committee and forms the basis for 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 proud to have achieved 33% female representation at Board and senior management level, in alignment with the Hampton-Alexander Review targets.

The Board has always believed, and continues to believe, in appointing the best person to any role regardless of gender or other points of diversity and this belief is reflected and operates across all appointments made by the Group. However, the Board recognises that measurement and publication of targets can assist in driving forward change and developing a talent pipeline in a sector where gender diversity has been difficult to achieve. For this reason, the Group signed up to HM Treasury's Women in Finance Charter initiative during 2016 and agreed targets in respect of gender and ethnic diversity amongst the Group's senior management.

The Group's target is to achieve 35% female representation at senior management level, using the Hampton-Alexander measure, by January 2022. By the end of September 2020 33.9% of senior roles had female incumbents. The Group is committed to ensuring it meets its targets by 2022 and is endeavouring to make progress towards this target. The recently formed Equality, Diversity and Inclusion Network is an important initiative to help the Group achieve this target, and the network will regularly update the Committee on its work.

During the year the Committee reviewed the Group's gender pay report and supporting analysis. It closely monitored 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 balancing gender pay difficult, as it is for other financial services firms. This will continue to be a focus for the Committee.

As is clear from the existence of the Women in Finance initiative, obtaining full diversification of gender in the financial services sector is particularly challenging. Similar issues apply to advancing diversity of ethnicity in the sector. The targets adopted reflect the Board's commitment to ensuring that diversity considerations throughout the Group are wider than gender. The Committee regularly reviews the Group's Equality, Diversity and Inclusion Policy to ensure good practice is achieved and that policies are compliant with the 2018 Code requirements.

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 run regular employee surveys during the year in response to the Covid-19 pandemic and the People Director provides updates on the results of these to the executive.

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 the impact from Covid-19 from 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.

Our responsibility is to ensure that financial information published by the Group properly presents its activities to all stakeholders...

Alison Morris,
Chair of the Audit Committee

B6. Audit Committee

B6.1 Statement by the Chair of the Audit Committee

Dear Shareholder

This is my first report to you as Chair of the Group's Audit Committee and it marks a year in which the challenges faced by the business, both in its accounting and its financial control systems, have been some of the most complex in recent years.

While these challenges have been shared by much of the UK corporate sector, that does not lessen their impact, nor the calls on the Committee to ensure that these have been properly addressed by the business on behalf of all of the stakeholders.

As a committee, our responsibility is to ensure that financial information published by the Group properly presents its activities to all stakeholders and other interested parties in a way that is transparent, useful and understandable, as well as overseeing the effective delivery of both external and internal audit services. The impact of the Covid-19 pandemic in the year has increased the complexity of making any accounting judgement based on future expectations as well as necessitating changes in working practices around the Group which internal audit have had to evaluate.

From an accounting standpoint the issue which engaged the largest part of the Committee's attention was the level of impairment provision appropriate for the Group's loan assets under IFRS 9 and the way this is presented in this annual report. The crisis highlighted the inherent weakness of the model-based approaches used throughout the financial services industry in situations outside the range of previously observed data, however good the modelling. The longer term effects of government and regulatory relief for loan customers are uncertain, while the short-term effects distort many of the measures generally used to monitor credit quality, such as arrears levels and credit scores. Overall, the lasting impact of Covid-19 on the UK economy and therefore on the future financial health of the consumers and SMEs who are the Group's principal customers is impossible to predict accurately.

All of these factors have meant that management judgement has had a more significant role than usual in the determination of appropriate levels of provision, and the Committee has taken its role to examine and challenge those judgements very seriously, including the insertion of an extra meeting during the early part of the crisis.

The Committee has also carefully considered the impact of the crisis on the carrying value of goodwill assets and on the going concern status of the Group, noting that the capital disciplines which it is subject to under banking regulation have left it better placed than businesses in other industries to address this issue.

The changes in working practices and systems necessitated by Covid-19, such as the rapid transfer to home working and the introduction of CBILS and BBLS, meant that I was involved in a rapid reprioritisation of the work of internal audit to ensure that sufficient new controls had been properly devised and implemented to deal with these changes and protect the risk environment. The Committee was pleased with internal audit's findings on these areas. I am happy to be able to confirm that the Group was not forced to divert internal audit resource to other areas as a result of Covid-19, as many other UK companies have done, according to the Chartered Institute of Internal Auditors ('CIIA').

All of these issues required the detailed engagement of the Committee and I would like to thank my colleagues for their input and their level of engagement on these matters.

In the coming financial year ending 30 September 2021 the Committee's main priorities will include:

- Monitor the continuing developments of the IFRS 9 response to Covid-19 as economic outcomes become clearer, customer behaviour starts to manifest itself and regulators provide further guidance

- Continued monitoring of the Group's wider IFRS 9 impairment processes in the light of best practice developments and actual outturns

- Considering ongoing developments in the regulatory environments surrounding accounting, reporting and auditing and ensuring the Group is well positioned to respond appropriately

- Ensuring that the Group's control processes evolve alongside developments in the business, whether generated through Covid-19 or otherwise

- Commencing the annual process of formal review of the need for an audit tender

Finally I would like to thank Peter Hartill, my predecessor as Chair of the Committee, on behalf of myself and the rest of the Committee for his contribution to the Group over nine very eventful years, and for the support he has given me during the transition period. We wish him all the best for the future.

I commend this report to shareholders and ask you to support the resolutions concerning the reappointment of KPMG LLP ('KPMG') as auditors and their remuneration at the AGM in February 2021.

Alison Morris

Chair of the Audit Committee

3 December 2020

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. In addition, Peter Hartill was a member of the Committee until his resignation from the Board on 30 September 2020 and Alison Morris joined the Committee on 26 March 2020. Alison Morris succeeded Peter Hartill as Chairman of the Committee, chairing her first meeting in September 2020, the overlap of their terms on the Committee facilitating a smooth handover.

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 2020 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 and Peter Hartill have 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 November. The Committee normally invites the Chair of the Board, the executive directors, Chief Risk Officer, 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.

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 2020, the Committee met five times, the additional meeting being added to consider Covid-19 related accounting issues in more depth. Its principal activities were as follows:

- 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 changes which will affect it

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, when there have been major changes in the Group's accounting policies or audit arrangements in progress, the Chair of the Committee at the time has held meetings with shareholders. Future meetings with investors to discuss such matters will be organised if and when required.

Details of the Committee members' attendance at meetings and 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 2020 the Committee considered particularly:

- The levels of impairment provision against loan assets and, in particular, the economic impact of the Covid-19 pandemic on both customer credit and the operation of provisioning methodologies
- 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
- 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 expected future credit losses on any financial asset held on the balance sheet on the amortised cost basis. As a forward-looking measure, the determination of such provisions is heavily dependent on the use of judgement and estimation techniques to evaluate the likelihood of loss on accounts and the potential amount of any loss, should one occur. In the current economic environment dominated by Covid-19 this consideration of future credit losses is particularly complex. 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 • The assumptions used as inputs in these calculations • The economic projections used in deriving future loss expectation • The definitions of significant increase in credit risk, credit impairment and default for expected credit loss ('ECL') purposes • The appropriateness of the calculated provisions in the light of government interventions in the UK lending market and the economy more generally • The appropriateness of adjustments made to calculated amounts 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 Covid-19, the Committee considered particularly 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 Covid-19 reliefs. 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. The Committee also reviewed the appropriateness and adequacy of additional provisions made for particular cases and other factors not allowed for in the impairment process. *Further information on these estimates can be found in note 64a to the accounts, the impairment charge for the year and the movements in provision for impairment are shown in note 19.* *The Group's exposure to credit risk is discussed in note 56.*

Matter	Particular areas of focus
Interest income and expense 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. A similar approach is taken to assessing interest on borrowings, where redemption profiles and anticipated refinancing dates influence expense recognition. The Committee assessed the appropriateness of the assumptions made, considering performance of the portfolios against expectations and the impact of changes in product specifications, together with the replacement of certain spreadsheet models with more sophisticated loan-level modelling. 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 valuations are based on expected cash flows, the potential economic impacts of Covid-19 on customer behaviour were carefully considered. *Further information on these estimates can be found in note 64b 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-19 this was also considered in full at the half-year. In considering whether any impairment of goodwill had occurred the Committee considered particularly the Group's forecasts for the cash flows to be generated by the acquired businesses and their reasonableness in the light of current trading performance and the Group's strategy for these operations. *The potential impairment of goodwill is discussed in notes 64c and 26.*
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 53 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-19 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. 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-19 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. On the basis of these activities the Committee concluded that it could advise the Board that the statements were appropriate. *The Board statements on internal control and risk management are set out in Section B10.*
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-19 on the Group's business and results. 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 2020 to the Board for approval.

The Committee's consideration of the financial statements for the year ended 30 September 2019, which took place in the year under review, is discussed in the Audit Committee report for that year.

The 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.

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 Annual General Meeting in February 2016. The financial year ended 30 September 2020 is the fifth reported on by KPMG. Simon Clark has served as engagement partner since the year ended 30 September 2018. He has been involved in the audit assignment since KPMG's appointment.

The Group is therefore not subject to a legal requirement to undertake an audit tender until ten years have elapsed. After the completion of the fifth audit which was not subject to a formal tender process (the year ending 30 September 2021), and in each subsequent year thereafter, the Committee is required to report to shareholders its conclusions on whether a further tender is in the Group's interest at that time. The Committee will be conducting a formal review in line with this requirement in the coming financial year and will report its findings to shareholders in next year's 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 2020 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 2019 audit, undertaken at the time of approval of the Group's 2019 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 and the FRC's most recent audit inspection review on KPMG, published in July 2020. 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 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 2021 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.

In September 2020 the policy was revised to be consistent with the FRC Ethical Standard for auditors. The current policy limits the use of its 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 10 to the accounts. No services other than services required to be provided by external auditors by legislation or regulation, such as the review of half-yearly financial information and profit verification for regulatory purposes, were provided by KPMG.

Audit fees of Group entities for the year have increased by 8.6% to £1,468,000 (2019: £1,352,000). This was a result of an increase in scope in certain areas and inflation in professional services fees more generally.

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 includes 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. The calculation applies for the first year commencing after June 2019 which means that this restriction applies from the current financial year.

Non-audit fees paid to the auditor for the year ended 30 September 2020, should be no more than 70% of the average of the audit fees for 2017, 2018 and 2019, £929,000. Fees were paid to KPMG, the Group's external auditor, such for non-audit services during the year were £168,000 (2019: £112,000), well within the cap. All of these fees were for audit related services.

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:

	2020	2019
	£000	£000
Auditors – KPMG	**-**	-
Other big four firms	**3,043**	2,393
Other firms	**-**	6
	3,043	2,399

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.

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. In 2020, the plan was subject to several revisions in response to Covid-19, with internal audit reviews added to the Plan to confirm the ongoing operation of key controls during this period.

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. Since the appointment of Alison Morris as Chair of the Committee, these meetings have formed part of the Chair's overall induction plan. Ahead of finalisation of the audit plan for the year ending 30 September 2021, 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 2020, 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.

Paragon's overall performance has demonstrated its fundamental resilience during this challenging year…

Hugo Tudor,
Chair of the Remuneration Committee

B7. Remuneration Committee

This report covers the activities of the Remuneration Committee for the year ended 30 September 2020 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

Dear Shareholder

Group's remuneration philosophy

The philosophy underpinning Paragon's Remuneration Policy seeks to recognise fairly the contributions of all employees. This philosophy remains unchanged and continues to apply throughout the organisation, with oversight from the Remuneration Committee. The aim, for executive directors and senior management, is to ensure that their rewards are aligned with the interests of shareholders and other stakeholders. This is achieved through both the Group's short and long-term strategic objectives, whilst the policy also meets the core objectives of motivating and retaining employees.

In addition to shareholder and investor groups, as Chair of the Committee, I engage with employees specifically on executive remuneration and also on wider pay policy. These discussions are mainly focussed through the Group's People Forum and are helpful in providing constructive feedback for Committee members as well as giving the opportunity for me to explain the rationale for Committee decisions to the wider workforce.

Introduction of the 2020 Remuneration Policy

The 2020 policy was approved by shareholders at the Company's AGM in February 2020. The new Remuneration Policy was designed to meet the developing regulatory and governance landscape and reflected feedback from extensive stakeholder interaction during 2019.

At the AGM both the remuneration report and the policy achieved well in excess of the required voting levels for the resolutions to be approved. However, as more than 20% of the votes cast were against each resolution further interaction with shareholders was undertaken. Following this engagement, and in direct response to shareholder feedback, the Committee announced to the Stock Exchange in August 2020 that instead of the originally scheduled introduction date of 1 October 2019, the policy changes to salaries and pensions, and the introduction of role-based allowances, would instead be introduced from 14 February 2020 (being the day after AGM approval). In addition, the Committee also disclosed further detail around the use of customer metrics within the 2020 PSP awards. The Committee welcomed the engagement with shareholders and proxy advisors regarding the introduction of the new policy and carefully considered the feedback that was provided. I would like to thank all who engaged with us for their interest and constructive contributions.

Business performance

Paragon's overall performance has demonstrated its fundamental resilience during this challenging year. Of particular note, was the ability of the business to switch to home working very quickly, with over 90% of employees working from home effectively within two weeks of the lockdown on 23 March, maintaining customer focus and support throughout the pandemic. This was evidenced through the provision of payment holidays, maintaining the availability of new lending throughout, giving our customers efficient and effective access to CBILS and BBLS and continuing to offer attractively priced deposits to our savings customers.

Paragon's capital base is robust and the IRB application, phase one of which was submitted this year, is intended to strengthen longer term risk management capabilities and in turn capital efficiency. Liquidity has been healthy with the average LCR significantly above the levels envisaged in the business planning and scenario analysis conducted by the Group at the start of the year.

Investing for the future has continued to be a high priority during this unusual year with digital systems development, for example in customer portals, and an increase in savings market capacity achieved alongside the delivery of CBILS and BBLS. These were realised together with the delivery of module 1 of the Group's IRB application to the regulator.

As with every organisation there has been an impact on the Group's financial performance from Covid-19 and the full details of this are discussed in the Strategic Report. In terms of the direct relationship of performance to remuneration this can be seen in the balanced scorecard outcome for the executive directors shown later in the report (Section B7.2).

Exemplary leadership throughout the pandemic has been shown by the senior management team and it has been apparent that the longevity of the executive directors and other members of the senior team has underpinned Paragon's strong resilience and response to the crisis.

Variable pay earned in the year

To further enhance alignment between shareholders and the executive directors during the current uncertain environment, the Committee determined that the entire value of the executive directors 2020 bonuses would be satisfied in shares deferred for three years under the terms of the existing Deferred Share Bonus Plan ('DSBP') with no cash bonus being paid.

Normally, there has been a deferral for executive directors of 25% of the bonus amount in excess of £50,000, under this plan. We have also enhanced the deferral provisions for other senior managers. Members of the Group's Executive Committee have had 50% of their cash bonuses deferred under the DSBP. Other members of the senior management team, whose award is in excess of £30,000, will have 25% of the award deferred. These changes to deferral patterns increase interests in shares and therefore the alignment between the experience of executive directors, senior managers and other employees with our shareholders.

In light of the resilient performance of Paragon in this challenging climate, the executive directors will receive a total bonus of 66.1% of maximum bonus opportunity for the year (which was derived on the basis shown in Section B7.2). The Committee determined that the formulaic outcomes under the bonus framework were fair and appropriate in light of the very strong non-financial performance and exemplary leadership shown over the period, therefore it was decided that no discretion be applied to outcomes. This represents a 34% reduction in total bonuses when compared to 2019 and, as noted above, has no cash element.

In reaching this decision, the Committee took into account the shareholder and employee experience during 2020. Executive director bonuses were reduced in line with profitability and aligned with the wider workforce bonus outcome. In addition to this, the Committee noted that the Group did not join the UK Government's furlough scheme, has not made any redundancies due to the pandemic and further, any employee who was requested to 'shield' because of their vulnerability did so on full pay. The Committee noted the share price performance of the Group which performed well compared to its peers across the period. Whilst the Group did not pay an interim dividend, it has agreed that a final dividend of 14.4 pence per share will be paid, subject to shareholder approval. Consequently, the dividend level paid in respect of 2020 will be 32.1% lower than that paid in respect of 2019 and this decline is reflected in the 34% decrease in the executive directors' bonus outturn year on year.

Long-term incentive awards under the Paragon Performance Share Plan ('PSP') which were granted in December 2017 are due to mature in December 2020. These awards are subject to performance conditions, with the TSR, representing 50% of the award, vesting in full due to Paragon's strong share price performance relative to peers over the three-year period, and the risk condition, representing 25% of the award, vesting at 88%. However, the EPS element, representing the remaining 25% of the award, did not vest, resulting in an expected overall vesting percentage of 72%.

The PSP awards for the year beginning 1 October 2019 that would usually have been granted in December 2019 were deferred until after the AGM in 2020. This enabled the awards granted to executive directors to be made in accordance with the new Remuneration Policy, including increasing the time before which awards may be exercised from three to five years. Due to this deferment and the impact of Covid-19 the awards were granted to both the executive directors and other senior managers within the Group in July 2020. The conditions of these awards incorporate discretion for the Committee to make adjustments in respect of any 'windfall' gains that may arise on these awards given the lower share price position at the award date. The operation of any 'windfall' gain adjustment would not only apply to the executive directors but to all employees receiving an award in July 2020.

Regulatory regime

When the 2020 Remuneration Policy was drafted it was expected that during the lifetime of the policy the Group would become subject to increased levels of remuneration regulation as a larger financial services firm (known as a Level 2 CRD IV firm). The updated policy rebalanced pay to ensure compliance with the variable pay cap in readiness for becoming a Level 2 firm and to give shareholders full visibility of the necessary remuneration changes ahead.

CRD V, which is due to be implemented in December 2020, is expected to accelerate the applicability of Level 2 remuneration requirements to the Group. Consequently, it is likely that the Level 2 remuneration rules will apply to the Group in respect of the pay awarded for its financial year ending 30 September 2022. In anticipation of this, and as mentioned in last year's report, the Company is putting to the AGM a resolution to apply a ratio of the variable to fixed components of remuneration for executive directors and Group material risk takers that does not exceed twice fixed pay. No further changes need to be made to the current Directors' Remuneration Policy to comply with the regulations. Maximum bonus levels therefore would be able to remain at 150% of salary and PSP awards at 180% of salary for executive directors, as approved under the new policy, once the Group becomes a Level 2 firm.

The proposed cap, which is in line with the policies adopted by many other financial institutions, enables the Group to maintain its competitive flexibility to attract and retain key staff members with the necessary skills and experience to deliver the Group's strategy and to continue to generate value for shareholders. Furthermore, the passing of this resolution will not have any effect on the Group's ability to maintain a sound capital base.

As the Committee designed the Remuneration Policy so that it was compliant with the requirements applicable to a Level 2 CRD IV firm, the changes which will be applied to the Group through CRD V are already structured into the policy and consequently, no changes to the Directors' Remuneration Policy are proposed to be brought to shareholders for their approval at the 2021 AGM.

All employee rewards

The Group decided, in light of the impact of Covid-19, that there would generally be no salary rises for the 2021 financial year, other than the increases in the Real Living Wage recommended by the Living Wage Foundation. The Committee agreed this in respect of the executive directors and other employees for which it is responsible, including SMCR employees and material risk takers. No employee within the Committee's direct remit had their salary increased and overall less than 2% of employees received a pay rise.

Additionally, the Group agreed that all employees below executive committee level and their senior direct reports will receive a grant of £1,000 (gross) of shares. This grant, to over 95% of employees, is intended to be a one-off award to thank our people for all their hard work in support of the business and our customers in this difficult and unusual year. More details on this award are provided later in the report.

The profit related pay scheme ('PRP'), which the Group has operated for a number of years for all employees below a senior level, will continue. Eligible employees will receive the PRP payment in December 2020 as usual.

As part of Paragon's established commitment to fairness and respect, fair pay for all employees has long been a central tenet of the Group, which is a Living Wage employer. Further, the Committee has reviewed and taken into account remuneration elsewhere in the Group as part of its deliberations on senior management remuneration for a number of years. However, over the next year the fair pay agenda will increasingly form a focus of the Committee's work. The CEO pay ratio analysis together with the additional disclosures required this year (see Section B7.2) alongside the outcomes they show will be used to inform those discussions. Considerations on how to reduce identified gaps will be a priority for the Committee in the upcoming years.

Changes proposed for the year ending 30 September 2021

No salary increases for executive directors are proposed in the forthcoming year.

In respect of the PSP awards that will be granted in December 2020 the EPS targets have been updated to reflect the current macro-economic climate whilst maintaining an appropriate level of stretch in the target. There are no other changes envisaged for the financial year ending 30 September 2021 but the Committee will continue to monitor the ongoing impact of Covid-19 on the business and how this might impact on remuneration.

Conclusion

This report reflects continued engagement with shareholders and provides the Group with a regulatory compliant and competitive remuneration structure and I commend it to shareholders and ask you to support the resolutions to approve the Company's Directors' Remuneration Report and to increase the bonus cap to twice fixed pay at the AGM in 2021.

Hugo Tudor

Chair of the Remuneration Committee

3 December 2020

B7.2 Annual Report on Remuneration

Contents:
The annual remuneration report includes: • Remuneration summary (B7.2) • The Remuneration Committee, key responsibilities and advisers (B7.2.1) • Directors' remuneration for the year ended 30 September 2020 (B7.2.2) • Application of remuneration policy for the year ending 30 September 2021 (B7.2.3) • Other information (B7.2.4) • Policy summary (B7.3)

Remuneration summary

The information provided in this section is not subject to audit

Aligning our pay principles to our strategy during the year ended 30 September 2020:

The success factors on which the Group's strategic priorities are based	Translation into reward principles and structure	
	Bonus	**Performance share plan**
Credit quality	Risk measures and future value of new business	Risk assessment
Margins	Future value of new business and financial performance	EPS growth and relative TSR
Liquidity	Risk measure and financial performance	EPS growth, relative TSR and risk assessment
Sustainable earnings	Financial performance	Relative TSR, EPS and risk assessment
Capital strength and efficiency	Risk measures	Relative TSR and risk assessment
Cost control	Profit measures and personal objectives	EPS growth
A customer-focussed culture	Personal objectives	Customer metrics adopted from July 2020 grant

These success factors deliver enhancement of shareholder value and align with the Group's reward structure

How our pay principles aligned to the Code during the year ended 30 September 2020:

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
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	Discussion on executive remuneration and how it aligns to the workforce forms part of the regular People Forum discussions with the Committee Chair
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 payout 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 Annual Report and Accounts 2019
Alignment to culture	Paragon's strong culture is reflected throughout its pay structures through consideration of the demonstration of the Group's values when determining incentive outcomes for all employees as well as through its commitment to the Living Wage Foundation and Equality, Diversity and Inclusion policies 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
Risk	The pay arrangements for executive directors are consistent with and promote effective risk management Risk conditions are included within variable remuneration arrangements to align with regulatory expectations and shareholder interests. 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 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 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

B7.2.1 The Remuneration Committee, key responsibilities and advisers

The information provided in this section is not subject to audit

The Committee's membership is detailed in Section B4.1.

The Committee currently comprises three independent non-executive directors of the Company and the Chair of the Board whose relevant experience is set out in Section B3.1. In addition, Peter Hartill was a member of the Committee until his resignation from the Board on 30 September 2020 and Alison Morris joined the Committee on 26 March 2020.

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.

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, all Senior Managers and Certification Regime ('SMCR') personnel and Material Risk Takers ('MRTs') under the rules of the PRA/FCA including the Internal Audit Director and the CRO
- Reviews 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 Remuneration Policy for all employees and reviews and approves the Group's schedule of MRTs, under financial services regulatory remuneration rules

Attendees

The CEO, People Director, CRO, 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:

- Deloitte LLP ('Deloitte') who were appointed as the Committee's independent advisor in February 2016 following a review process. Deloitte is a member of the Remuneration Consultants Group and as such voluntarily operates 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.

  The total fees paid to Deloitte for advice to the Committee during the year amounted to £140,340 (including VAT). 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 Committee is comfortable that the Deloitte engagement partner and team providing remuneration advice to the Committee do not have any connections with the Group or any individual director that may impair their independence and objectivity.
- 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

Statement of voting at Annual General Meeting

The table below sets out actual voting in respect of the resolutions to approve the Annual Report on Remuneration and the Remuneration Policy at the Company's AGM on 13 February 2020.

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Annual Report on Remuneration	150,343,775	71.02%	61,340,110	28.98%	211,683,885	3,082
Remuneration Policy	157,352,402	74.33%	54,331,483	25.67%	211,683,885	3,082

Due to the 'significant' vote (more than 20%) against both the policy and the report, in accordance with the Code, the Company engaged further with its shareholders and announced the outcome of that follow up action to the Stock Exchange in August 2020.

These outcomes included provision of further information regarding the customer metrics that will be utilised for the long-term incentive plan and they are detailed later in Section B7.2. Additionally, changes to executive directors' salaries and pensions together with the introduction of role-based allowances which were originally scheduled to take effect from 1 October 2019 were introduced on 14 February 2020, the day after their approval at the AGM.

B7.2.2 Directors' remuneration for the year ended 30 September 2020

The information provided in this section has been audited.

Single total figure of remuneration for executive directors

Year ended 30 September 2020	N S Terrington £000	R J Woodman £000	J A Heron[1] £000	Total £000
Fixed remuneration				
Salaries and fees	**563**	**354**	**69**	**986**
Allowances and benefits[2]	**26**	**12**	**10**	**48**
Role based allowance[3]	**88**	**56**	**-**	**144**
Pension allowance	**160**	**101**	**31**	**292**
Total fixed remuneration	**837**	**523**	**110**	**1,470**
Variable remuneration				
Cash bonus	**-**	**-**	**-**	**-**
Deferred bonus	**594**	**374**	**-**	**968**
Dividend on vested deferred bonus[4]	**-**	**43**	**-**	**43**
Share awards[5]	**584**	**368**	**216**	**1,168**
Total variable remuneration	**1,178**	**785**	**216**	**2,179**
Total	**2,015**	**1,308**	**326**	**3,649**

Year ended 30 September 2019	N S Terrington £000	R J Woodman £000	J A Heron[1] £000	Total £000
Fixed remuneration				
Salaries and fees	503	317	268	1,088
Allowances and benefits[2]	25	12	27	64
Role based allowance[3]	-	-	-	-
Pension allowance	226	143	121	490
Total fixed remuneration	754	472	416	1,642
Variable remuneration				
Cash bonus	687	437	372	1,496
Deferred bonus	212	129	107	448
Dividend on vested deferred bonus[4]	-	-	25	25
Share awards[5]	1,348	849	719	2,916
Total variable remuneration	2,247	1,415	1,223	4,885
Total	3,001	1,887	1,639	6,527

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

[2] 'Allowances and benefits' includes private health cover, fuel benefit and company car provision or company car allowance (£10,000 to £12,000). It also includes reimbursement from the Company in respect of certain travel costs incurred in connection with the performance of executive director duties. The Group has been advised that the reimbursement of some of these costs constitutes a taxable benefit in kind. The Group has agreed to provide an allowance to these directors to cover the tax liability. The amounts included represent the payments HMRC treats as taxable together with an allowance to cover the tax.

[3] 'Role based allowance' was introduced following the AGM in 2020. The fixed pay allowance will be paid quarterly in shares and released over five years in equal tranches. The allowance is £140,000 per annum for N S Terrington and £90,000 per annum for R J Woodman. The RBA is not subject to performance conditions.

[4] Dividend on vested bonus is the accrued dividends to the date of exercise paid on deferred bonuses which were exercised during the 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.

[5] The PSP value for the year ended 30 September 2020 has been determined using the average closing share price for the three months ended 30 September 2020 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 2020 post the Preliminary Results announcement.

The share awards value for the year ended 30 September 2019 has been restated to reflect the market value of the shares under the PSP that vested on 1 December 2019 as at that date.

Pension allowance and pension accruals

Nigel Terrington, Richard Woodman and John Heron were members of the Paragon Pension Plan ('the Plan'), the Group's defined benefit pension plan, until 30 September 2016. Following which time, they took a cash equivalent transfer of benefits in the Plan, receiving a lump sum value on a no gain, no loss basis and have no further entitlement. They ceased pension accrual in return for a cash supplement calculated, as a percentage of salary, to equate to the cost of the Group's contributions towards future service benefits had each individual stayed within the Plan for their future service accrual. This supplement was fixed at 45% of base salary during 2017 so that the Group would have known costs associated with pension provision. This fixed percentage was a lower amount than the actual contractual entitlement based on the most recent figures presented by the Group's actuaries.

From 14 February 2020, for Nigel Terrington and Richard Woodman, a reduction to 20% of base salary was made as part of the new Remuneration Policy approved at the 2020 AGM (John Heron had retired as a director on 6 January 2020). This change further aligned executive directors' pension contribution with the average contribution of the wider workforce. No compensation was paid or payable to the executive directors in respect of this change. Contributions in respect of pension provision for each of the directors are shown as 'pension allowance' in the single total figure of remuneration table. Newly appointed executive directors will receive a pension contribution of 10%.

A small number of former members of the Plan receive a cash supplement of 45% of salary for having left the Plan. About 10% of employees are still accruing benefits in the Plan. Those employees contribute 5% of salary and there is an employer contribution, which at the start of the year was 32% of salary, and which increased to 43.8% in July 2020. The majority, in terms of numbers, of the workforce are members of the defined contribution scheme where the maximum employer contribution is 10% of salary (subject to an employee contribution level of 6% of salary). When the Group's contribution rose to 10% in January 2020 approximately half of eligible employees increased their contribution to 6% to receive the additional matching funds.

Consequently, 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 and were members of the Plan. There is, therefore, at this point in time, no intention to adjust the contribution level further. The next review of pension arrangements will take place in 2022 as part of the three year policy review.

Annual bonus

The annual bonus for the year ended 30 September 2020 was based on performance against business, financial and risk measures and personal strategic objectives (as detailed below) which resulted in a bonus of 66.1% of maximum opportunity for each of the executive directors:

Balanced scorecard assessment

Performance for the year and the resulting award levels in respect of the business element were as follows:

Measure	Weighting	Threshold	Target	Maximum	Actual	Outcome
Financial performance	**30%**					**4.7%**
Underlying profit	40%	£163.8m	£167.8m	£172.8m	£120.0m	0.0%
Underlying RoTE	30%	13.7%	13.9%	14.3%	9.8%	0.0%
Underlying NIM progression	10%	+2bp	+6bp	+11bp	-5bp	0.0%
Cost: income ratio	10%	44%	43.2%	42.4%	43.0%	6.2%
CET1	10%	13.0%	13.7%	14.4%	14.3%	9.3%
						15.5%

Measure	Weighting	Assessment	Outcome
Future value and strategy	**30%**	Qualitative assessment by the Remuneration Committee of:	**23.4%**
Development activities	25%	Increased savings market capacity BBLS/CBILS delivery Digital systems development for intermediaries and customers, providing online platforms for existing mortgage operations and for new products which delivered an improved customer experience and processing efficiencies	18.0%
Pipeline	25%	Buy-to-let pipeline is strong, at £868.1m, with embedded returns materially stronger Development finance post-offer pipeline now £171.5m	18.0%
Embedded value	25%	IRB module 1 completed New business volumes lower but inception margins and credit quality increased Retention levels materially stronger across the Group including for buy-to-let at 93.4% (up from 91.4% in 2019) Savings margin enhancements which will drive future NIM benefits together with strong savings outperformance driving value in 2021 and beyond	18.5%
Liability management	25%	Funding cost reduced Effective management of direct / platform mix Increased contingent funding Completion of a fully-retained securitisation during the year and accessing TFSME funding Prudent LCRs – offset to P&L in the Covid-stressed environment Enhanced treasury management systems	23.5%
			78.0%
Risk	**20%**	Qualitative assessment by the Remuneration Committee of:	**18.0%**
		Enhanced stress testing, delivered ICAAP, ILAAP, RP with strong PRA engagement. Excellent operational resilience clearly demonstrated. Applied tighter risk appetite across new lending including lower LTVs	90.0%
Personal performance	**20%**	Individual targets for each of the CEO and CFO detailed below:	**20.0%**
		For each director	100%

	Individual targets	Actual performance
N S Terrington	Continue to focus the Group's presence as a leading UK specialist lender	Strong buy-to-let pipeline at year end £868.1 million Specialist landlord finance (92.8%) of new business
	Expand the addressable savings market	Savings expansion with margin enhancements of 47bps Additional platform relationships established
	Continuing technology development to digitise the business for our customers, with faster decision making and improved cost efficiencies	Digital implementations to deliver business and customer benefits; intermediary portal phase 2, mortgage servicing portal, CBILS portal, implemented use of Clarity data
	Further develop the Group's risk management framework, including operational resilience	Established prudential risk team and increased specialist operational risk resource Launched the Executive Risk Committee to increase first line oversight of principal risks
	Continue to build a succession plan pipeline for Executive Committee roles	Four internal appointments to senior roles (50% male, 50% female) from the internal succession planning pool of high performers, including appointment of the CRO
R J Woodman	Optimise the Group's funding costs to support lending activities	Strong management of the reforecast in response to Covid-19, to ensure the Group remained prudent in both capital and liquidity terms with excellent liability performance
	Deliver Module 1 of IRB together with ICAAP, ILAAP and Recovery Plan submissions to the regulator	Module 1 IRB delivered to original timescale and Module 2 well progressed Capital reporting enhanced and IRB shadow metrics embedded Enhanced stress-testing capabilities generated through the IRB project
	Oversee the Group's transition away from LIBOR in terms of project governance, conduct risk oversight and treasury management	Project sponsor establishing a project team covering lending, treasury, operational risk and conduct functions with key milestones delivered to plan including regulatory updates, website, product and system developments
	Understand and assess the financial risks from climate change that affect the firm and oversee these risks within the firm's overall business strategy and risk appetite	Climate change adopted as a principal risk by the Board Project team established covering governance, data, disclosure, scenario testing and products. A plan and a charter have been developed for each work stream with a lead manager appointed to oversee progress
	Ensure actions progress to support the Group's diversity targets	50% of senior appointments were female Equality, Diversity and Inclusion Network launched

Annual bonus outcome

The resulting bonuses for the year ended 30 September 2020 were as follows:

Executive director	Financial performance	Future value and strategy	Risk	Personal performance	Total	Total	Cash	Share value
						£000	£000	£000
N S Terrington	4.7%	23.4%	18.0%	20.0%	66.1%	594	-	594
R J Woodman	4.7%	23.4%	18.0%	20.0%	66.1%	374	-	374

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

In reaching this decision, the Committee took into account the shareholder and employee experience during 2020. The reduction in executive director bonuses was commensurate with the shareholder experience in terms of dividend performance and was also aligned with the wider workforce bonus outcome.

No cash bonus will be paid to the executive directors for 2020, instead 100% of amounts awarded will be deferred into nil cost options under the Deferred Share Bonus Plan ('DSBP') which can be exercised after three years. No further performance conditions apply to the deferred shares; details on the applicability of malus and clawback provisions to these awards are provided in the Remuneration Policy in the Annual Report and Accounts 2019.

Paragon Performance Share Plan

Awards vesting in respect of the year ended 30 September 2020

Awards granted in December 2017 under the Group's PSP are subject to performance conditions measured over the three financial years ended 30 September 2020.

Performance condition	Weighting	Threshold vesting for 25% of maximum award	Maximum vesting	Actual performance	Vesting outcome
Relative TSR	50%	Median performance	Upper quartile performance	Upper quartile performance	100%
EPS growth	25%	RPI plus 3% p.a.	RPI plus 7% p.a.	Below threshold	0%
Risk	25%	n/a	n/a	88%	88%
Total as a % of maximum award					**72%**
Total as a % of salary at grant					**144%**

There is straight-line vesting between the threshold and maximum for the TSR and EPS conditions and no reward below threshold performance. 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 Chief Risk Officer, 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
- Complaints, the main measure for customer service, were within risk appetite for the majority of the period
- Operational risk outcomes were reflective of the Group's exemplary resilience shown in the pandemic

Vesting was also subject to the Committee's determination, in respect of the financial underpin, whether the level of vesting reflected the overall financial performance of the Group and it was concluded that the vesting level was appropriate.

The vesting percentage has been reviewed by the Committee and details of the shares which will vest in December 2020, following the announcement of the Preliminary Results, are set out below.

	Total shares granted	Vesting outcome	Total shares awarded	Share price[1]	PSP value[2 3]
				£	£000
N S Terrington	205,192	72%	147,738	3.439	584
R J Woodman	129,227	72%	93,043	3.439	368
J A Heron[4]	109,401	72%	54,547	3.439	216

[1]The PSP value has been estimated using the average closing share price for the three months ended 30 September 2020. The actual value of the awards will not be known until the awards vest in December 2020, 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 £0.5160 per vested share in respect of such dividends.

[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') over 6,279 shares (which will vest 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 may be disregarded in determining the value.

[4]J A Heron's PSP 2017 is shown pro-rated to his retirement date of 6 January 2020.

Impact of the share price on vesting awards in 2020 and 2019

The final vesting value in 2020 reflected a 28% decline in the share price between grant and vesting and in 2019 a 35% increase on the same basis. The Committee did not apply discretion on vesting outcomes for either award.

	Number of shares granted	Grant basis	Vesting outcome	Vested shares	Share price at 30 September 2020[1]	Impact of share price appreciation/depreciation
		£				£
2017 PSP awards						
N S Terrington	205,192	4.7614	72%	147,738	3.439	(195,369)
R J Woodman	129,227	4.7614	72%	93,043	3.439	(123,040)
J A Heron[2]	109,401	4.7614	72%	54,547	3.439	(72,133)
Total	**443,820**					**(390,542)**

	Number of shares granted	Grant basis	Vesting outcome	Vested shares	Share price at 1 December 2019[3]	Impact of share price appreciation/depreciation
		£				£
2016 PSP awards						
N S Terrington	262,114	3.6188	95.44%	250,161	4.876	314,502
R J Woodman	165,074	3.6188	95.44%	157,546	4.876	198,066
J A Heron	139,753	3.6188	95.44%	133,380	4.876	167,685
Total	**566,941**					**680,253**

[1]The PSP value has been estimated using the average closing share price for the three months ended 30 September 2020. The actual value of the awards will not be known until the awards vest in December 2020, as it will be based on closing share price at that date.

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

[3]The share awards value for the year ended 30 September 2019 have been valued based on the market value on the date of vesting being 1 December 2019.

Awards granted during the year ended 30 September 2020

On 6 July 2020 the following awards were granted under the PSP with a face value of 180% of salary.

Executive director	Salary	Percentage grant	Face value of grant	Share price[1]	Number of shares
	£000		£000	£	
N S Terrington	599	180%	1,078	3.4496	312,429
R J Woodman	377	180%	678	3.4496	196,763

[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 half-year ended 31 March 2020, being the price used to determine the number of shares in accordance with the Directors' Remuneration Policy.

The PSP awards granted in July 2020 are subject to the following performance conditions, with a performance period of three years, from 1 October 2019, ending on 30 September 2022. 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%	Median performance	Upper quartile performance
Basic EPS	25%	60 pence	67 pence or more
Risk	25%	50% weighting on an assessment from the Chief Risk Officer 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.

Application of 'windfall' gains

The Committee may reduce the extent to which an award would vest if any value in the award at the date on which the performance conditions are assessed is deemed to be a 'windfall gain' by the Committee as a result of the number of the shares subject to the award having been determined by reference to the average share price over the five dealing days following the announcement of the interim results. The Committee will consider such items as the share price used for determining the grant and subsequent share price performance over the performance period, the degree of vesting, dividend equivalents and the broader macro-economic climate in which the Group has operated to determine whether or not an adjustment to the vesting level should be made.

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** (formerly Royal Bank of Scotland Group PLC)	**OSB Group PLC**
Provident Financial PLC	**Secure Trust Bank PLC**	**S&U PLC**
Virgin Money UK PLC		

This group is unchanged from the previous year, other than reflecting the acquisition of Charter Court Financial Services PLC by OneSavings Bank during the period. OSB Group PLC replaced One Savings Bank as parent company of that group under a scheme of arrangement on 30 November 2020.

Payments to past directors

J A Heron retired from the Board on 6 January 2020. No payment was made for loss of office. He remains entitled, under the usual 'good leaver' provisions to awards received under the PSP and 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 DSBP these will vest in full once the vesting period has elapsed. Both PSP and DSBP remain subject to malus and clawback provisions.

Payments for loss of office

No payments for loss of office were made during the year ended 30 September 2020.

Chair of the Board and non-executive director fees

	Year ended 30 September 2020			Year ended 30 September 2019		
	Fees £000	**Benefits £000**	**Total £000**	Fees £000	Benefits £000	Total £000
Chair of the Board						
F J Clutterbuck	**255**	**14**	**269**	255	14	269
Non-executive directors						
P J N Hartill[1]	**87**	**-**	**87**	95	-	95
A C M Morris[2]	**44**	**-**	**44**	-	-	-
B A Ridpath	**65**	**-**	**65**	65	-	65
H R Tudor[3]	**87**	**-**	**87**	85	-	85
F F Williamson	**85**	**-**	**85**	85	-	85
G H Yorston	**65**	**-**	**65**	65	-	65
Total	**688**	**14**	**702**	650	14	664

[1]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

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

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

Directors' share interests

The interests of the executive directors in the shares of the Company at 30 September 2020 (including those held by their connected persons) were:

	N S Terrington Number	R J Woodman Number	J A Heron[1] Number
Unvested awards subject to performance conditions			
PSP[2 3]	539,585	339,822	121,117
Unvested awards not subject to performance conditions			
DSBP	136,772	83,076	67,080
Sharesave	12,026	12,026	-
Role based allowance[4]	12,987	8,348	-
Total unvested awards	701,370	443,272	188,197
Vested but unexercised awards			
PSP[5]	289,828	250,589	187,927
DSBP	212,725	26,742	17,849
Total vested but unexercised awards	502,553	277,331	205,776
Shares beneficially held	801,269	241,051	274,723
Total interest in shares	**2,005,192**	**961,654**	**668,696**
Awards exercised in the year[6]			
PSP	400,000	279,672	-
DSBP	-	63,482	-
Sharesave	-	-	-
Total awards exercised in the year	**400,000**	**343,154**	**-**

[1] J A Heron retired from the Board on 6 January 2020, the table reflects his interests as at that date, excepting that for the purposes of consistency with N S Terrington and R J Woodman his December 2017 PSP award is shown on the same basis (as detailed in note 3 below) and at an amount pro-rated to his leave date.

[2] As part of the December 2017 PSP award, each executive director was granted a tax-qualifying option under the Company Share Option Plan ('CSOP') over 6,279 shares (which will vest 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 may be disregarded in determining the value.

[3] For the purposes of the table above the awards granted in December 2017 to Nigel Terrington and Richard Woodman are assumed to be vested but unexercised in respect of the percentage which it is estimated will vest (72%) and to have lapsed in respect of the balance.

[4] The role based allowance awards include those purchased on 1 October 2020 as these awards relate to the quarterly payment to September 2020.

[5] The PSP awards exercised by Nigel Terrington were exercised on 21 February 2020, when the share price was £5.1729. The aggregate amount received, pre-tax and national insurance, was £2,069,160.

[6] The PSP and DSBP awards exercised by Richard Woodman were exercised on 3 December 2019, when the share price was £4.8047. The aggregate amount received, pre-tax and national insurance, was £1,648,752.

The interests of the Chair of the Board and the non-executive directors at 30 September 2020, which consist entirely of ordinary shares, beneficially held, were as follows:

	2020
F J Clutterbuck	**8,372**
A C M Morris	**4,000**
B A Ridpath	**4,358**
H R Tudor	**70,000**
F F Williamson	**3,000**
G H Yorston	**7,517**

As at 2 December 2020, 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.

Peter Hartill who resigned from the Board on 30 September 2020 was interested in 7,000 ordinary shares as at the date of his retirement. Peter Hill was appointed to the Board on 27 October 2020 and at that date and at 2 December 2020 held 2,459 ordinary shares in the Company.

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, usually 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:

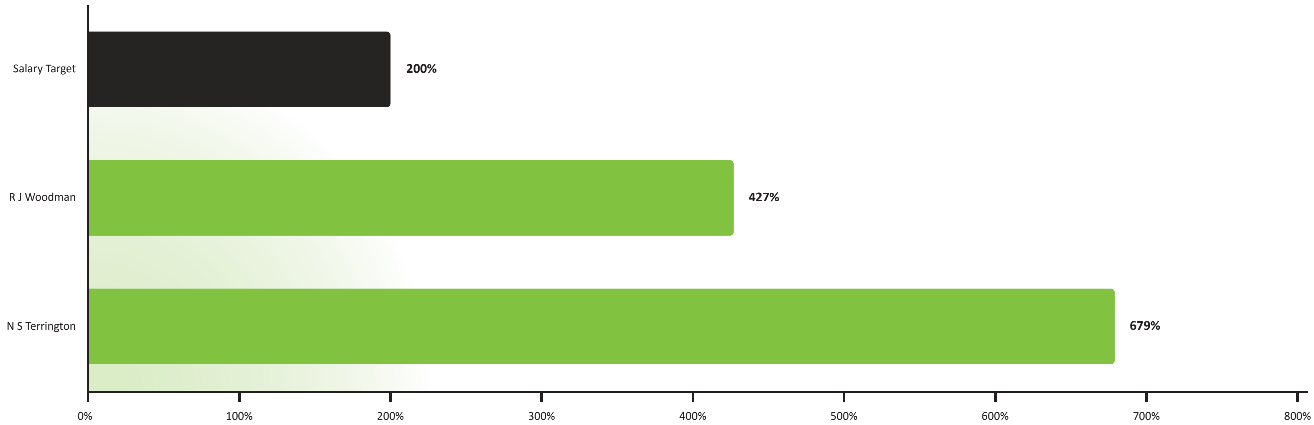
1. Unexercised but vested share awards
2. Share awards with no performance conditions attached such as the DSBP and RBA and share awards with performance conditions no longer attached such as PSP awards once the performance conditions have been tested
3. Shares purchased with own funds where those shares 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 2020 to those required by the guidelines, expressed in value terms as a percentage of salary. The 30 September 2020 salary has been used this year due to the increase in salary, noted above, which occurred following the 2020 AGM.

Directors' shareholding guidelines

30 September 2020



At 30 September 2020, 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 has adopted a post-cessation shareholding requirement. This requires that for two years following cessation of employment, based on his immediately pre-cessation salary, an executive director must retain such of his '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.

B7.2.3 Application of remuneration policy for the year ending 30 September 2021

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

Overview

The Committee has, for a number of years, considered as part of its regular review of executive director remuneration the wider external market and consulted with stakeholders on the structure of remuneration packages on a regular basis. Further, it will review during the year the pay ratios analysis undertaken as part of the year end processes and consider executive director remuneration and the fair pay agenda in the light of this analysis.

Executive directors

Base salary

The salaries of the executive directors were changed, in line with the newly adopted Remuneration Policy, on 14 February 2020.

It was agreed by the Remuneration Committee that there would be no increase in base salary for the year ending 30 September 2021 for the executive directors.

Nil increases were also agreed for most other employees across the Group except where a pre-existing contractual agreement was in place, or, where a person's role had substantially changed or their responsibilities significantly increased (increases were awarded to less than 2% of employees).

	Salary with effect from		
	1 October 2020	14 February 2020	1 October 2019
	£	£	£
N S Terrington	**598,754**	598,754	503,150
R J Woodman	**377,087**	377,087	316,875

Allowances and benefits and pension contributions

No change from the stated policy.

Annual bonus

The annual bonus structure and maximum opportunity remain unchanged. As noted earlier in this report deferral for the year ended 30 September 2020 will be 100% in comparison to prior years where deferral has been 25% of amounts over £50,000. This change has been agreed for the 2020 bonuses only, but the Committee has always had the right to require higher levels of deferral and in addition the executive director may elect to defer a greater proportion and therefore higher deferral may operate in future.

In line with the policy, the Committee has determined that for 2021 performance will be assessed against a balanced scorecard of measures consisting of: financial performance (30%) including core profit, RoTE and cost to income ratio targets, 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 Committee added an additional measure to its financial performance target this year to reflect the Group's performance in the strategically and regulatory important area of capital (addition of CET1 measure) and will review financial performance metrics to ensure they each reflect the ongoing priorities of the Group. The two core measures of underlying profit and underlying RoTE comprise 70% of the financial performance award, but the Committee will annually determine the appropriate secondary measures by reference to the strategic focus for the year. For example, in a strong position in the business cycle, loan growth and margins may carry the most weight, whereas in more challenging times capital and liquidity strength may have greater importance. In all cases, the measures chosen will relate back to the board-approved Corporate Plan. For 2021 the secondary measures will continue to be underlying NIM progression, cost:income ratio and CET1.

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.

PSP awards

Award levels for executive directors are 180% of base salary. The performance conditions (in respect of TSR, risk and customer and people metrics), targets, individual performance and Group underlying performance requirements are as summarised above for the awards granted in the year ended 30 September 2020. The TSR grouping remains the same. However, the EPS targets have been updated to reflect the current macro-economic climate whilst maintaining an appropriate level of stretch in the target. The EPS performance metric will be as follows:

Performance measure	Weighting	Threshold vesting for 25% of maximum award	Maximum vesting
Basic EPS	25%	58.0p	66.0p or more

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.

Chair of the Board's and non-executive directors' fees

	Fee with effect from	
	1 October 2020	1 October 2019
	£000	£000
Chair of the Board's fee	**255**	255
Base fee for non-executive directors	**65**	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.

Pay alignment across the Group

Groupwide remuneration philosophy

Paragon's groupwide philosophy on remuneration is to reward 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.

All employee views and the Committee

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 have taken place twice in the year ended 30 September 2020 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.

Alignment of all employee remuneration with stakeholders' interests

Living Wage Foundation

For a number of years the Group has been accredited by the Living Wage Foundation which means that it pays the Living Wage to all employees, and ensures that contractors' staff employed at Paragon sites such as cleaners and security personnel also receive it.

Deferred Share Bonus Plan

In 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 to all staff (below executive committee and their senior direct reports) will be made utilising the DSBP scheme. The awards will be granted in December 2020 to all eligible employees, which will be all staff employed on 3 December 2020, subject to minimum performance. The awards will have 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 will include a few employees subject to CRD IV, malus and clawback provisions will be applicable.

This award is in addition to the usual cash-based profit related pay distribution of 1% of group profits, which has been paid for many years 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 staff.

The DSBP will also be utilised to defer an increased number of senior management bonuses; for members of the Executive Committee 50% of their bonus above £30,000 will be deferred and for most other senior managers it will be 25% of their award above £30,000. For this pool of employees, the DSBP will operate as it does for the executive directors.

Directors and senior management participate in the annual bonus scheme, which is designed to incentivise them to achieve specific predetermined goals, reward individual performance and encourage retention through deferral of a proportion of the bonus. All employees whose performance has been exceptional are eligible for a discretionary bonus.

Discussions regarding both the group-wide salary freeze and the utilisation of the DSBP for the all employee and wider senior management pool grants took place at Committee meetings alongside discussions on executive director pay arrangements.

Sharesave

Paragon's sharesave scheme has operated for many years and encourages employees to become shareholders in the Group through this tax efficient mechanism. Take up over the five years up to and including 2020 has averaged at about 50% of eligible employees, but this year take up was just over 60% of eligible employees. The total take up across all schemes currently operating, at the point of grant of the 2020 sharesave was 72% of eligible employees reflecting the continued and ongoing alignment between employees and shareholders and employee commitment to the growth of the Group.

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	**2020**	2019	Change
		£m	£m	£m
Wages and salaries	*50*	**64.0**	62.6	1.4
Dividend paid	*41*	**35.9**	54.0	(18.1)
Loan advances and investment in portfolios		**2,050.5**	2,536.6	(486.1)
Corporation tax paid	*42*	**46.1**	39.4	6.7

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.

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

The following table shows the percentage change in the salary, benefits and bonuses of each of the directors between 2019 and 2020 compared to the percentage change in the average of each of those components of pay for an employee. The increases in salary reflect the salary review implemented in October 2019 for most employees but which for the executive directors, was as noted in the Chair's letter, effective from 14 February 2020.

The changes to fees for P J N Hartill and H R Tudor reflect P J N Hartill's departure from the Board during the year and H R Tudor's appointment as Senior Independent Director. The table illustrates a decrease of 100% in the cash bonus for the current executive directors as a result of the decision taken by the Remuneration Committee to defer the entire value of their respective annual bonuses for the year ended 30 September 2020.

The table also reflects changes in the employee population since 30 September 2019.

The table will build over the next five years and consequently the data, will in due course, provide more detailed information to the Committee regarding pay averages across the Group.

	Salaries and fees[1]	Allowances and benefits[2]	Cash bonus
	%	%	%
N S Terrington	11.9	4.0	(100.0)
R J Woodman	11.7	-	(100.0)
J A Heron	(74.3)	(63.0)	(100.0)
F J Clutterbuck	-	-	-
P J N Hartill	(8.4)	-	-
A C M Morris	-	-	-
B A Ridpath	-	-	-
H R Tudor	2.3	-	-
F F Williamson	-	-	-
G H Yorston	-	-	-
Average employee	8.5	19.2	(35.2)

[1]'Salary and fees' 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 'Role based allowance' ('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.

[2]'Allowances and benefits' are calculated using the data provided in the single figure table above for 'Allowances and benefits' and in the 'Chair of the Board's and non-executive directors' fees' table also above.

Corporate Governance

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	%	%
2020	2,015	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
2011	2,382	87.5	58.60 and 85.10

CEO pay ratio

The table below sets out the CEO pay ratio compared to the 25th, median and 75th percentile employee within the Group. 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. 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.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option A	81:1	59:1	34:1
2019	Option A	125:1	95:1	55:1

	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
		2020			2019	
Base salary	**£23,000**	**£28,000**	**£36,000**	£21,000	£29,000	£53,000
Total remuneration	**£25,000**	**£34,000**	**£58,000**	£24,000	£32,000	£54,000

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

Change in CEO pay ratios

As with the information included in the 'Comparison of annual change in directors' pay with the average employee' the ratio appears significantly reduced for the year ended 30 September 2020, as a result of the decision taken by the Remuneration Committee to defer the entire value of the executive directors' bonuses for the year ended 30 September 2020. Shareholders should not presume that the significant differentials shown in the ratios will be repeated in future years.

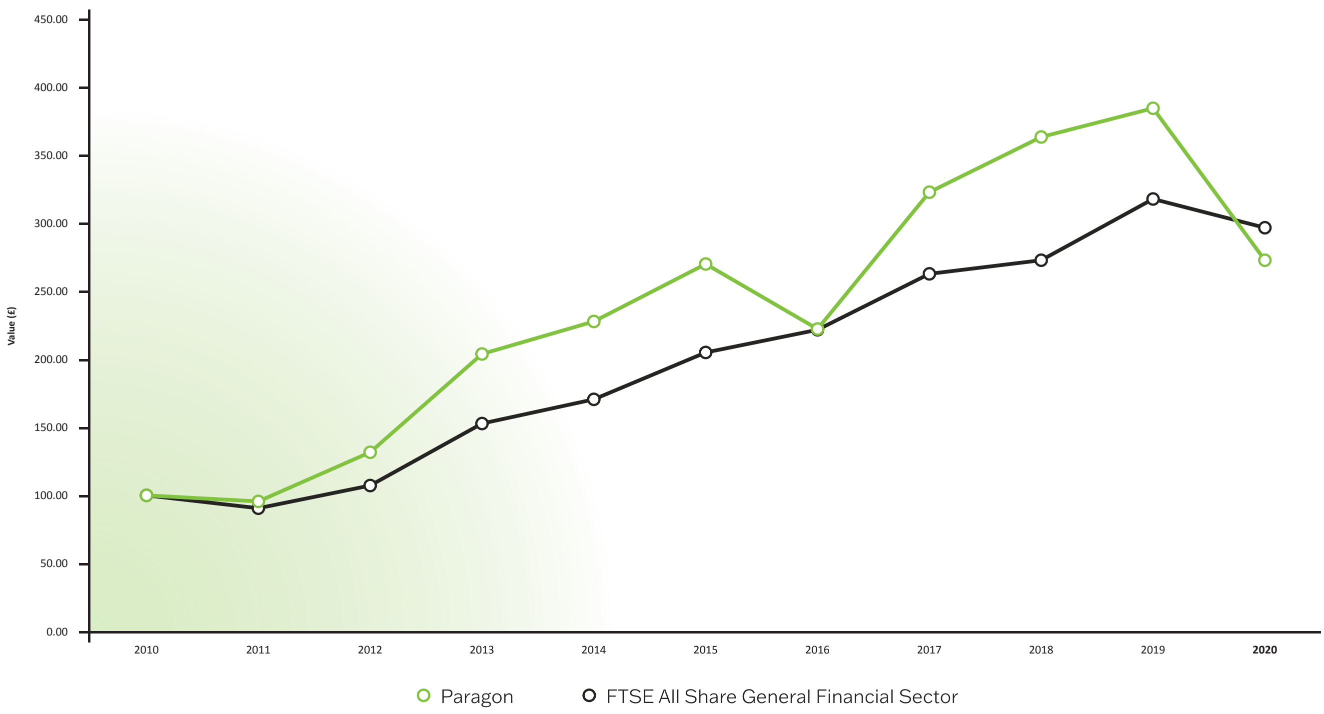
Gender pay

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

Performance graph and table

The following graph shows the Company's TSR performance compared with the performance of the FTSE All Share General Financial sector index. This graph shows the value, by 30 September 2020, of £100 invested in Paragon Banking Group PLC on 30 September 2010, compared with £100 invested in the FTSE General Financial sector index. The General Financial sector has been selected for this comparison because it is the sub-sector index that contains the Company's shares.

Ten Year Return Index for the FTSE All Share General Financial Sector as at 30 September 2020



Notice periods and terms of engagement

The Chair and 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	Period of engagement
F J Clutterbuck	10 May 2018 to 9 May 2021
P A Hill	27 October 2020 to 26 October 2023
A C M Morris	26 March 2020 to 25 March 2023
B A Ridpath	20 September 2020 to 19 September 2023
H R Tudor	24 November 2020 to 23 November 2023
F F Williamson*	20 September 2020 to 19 September 2023
G H Yorston	20 September 2020 to 19 September 2023

*F F Williamson will step down from the Board on 31 December 2020.

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 in 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 is expected to be subject to CRD V and therefore a number of the changes noted in the Remuneration Policy will come into effect. 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. This engagement also led to greater clarity regarding the customer metrics used in the July 2020 PSP awards being published to the Stock Market as detailed in Section B7.2 above. 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 p.a. for the CEO and £90,000 p.a. 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:

After the Group becomes a Level 2 bank for regulatory purposes, 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:

When the Group becomes a Level 2 bank for regulatory purposes, at the end of the 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 £2,000,000). 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 part 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
3 December 2020

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...

Finlay Williamson,
Chair of the Risk and Compliance Committee

B8. Risk management

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

Dear Shareholder

I am pleased to write to you again as Chair of the Risk and Compliance Committee to explain how we, as a committee, have discharged our responsibilities in the last year. I will be stepping down as Chair of the Committee at the end of 2020 and my final year has seen the impact of Covid-19 posing unique challenges to the Group's risk framework.

Our primary responsibility continues to be the maintenance of oversight of the effectiveness of the Group's risk management framework and of the Group's systems and controls for compliance with its statutory and regulatory obligations. The Committee also oversees the risk culture within the Group ensuring it is supportive of the overall risk appetite set by the Board and adequately embedded in the Group's operations.

The Committee structure has been further enhanced during 2020 with the new monthly Executive Risk Committee. The addition of this layer of governance is crucial in ensuring that the RCC maintains its focus on the key material and strategic risk issues that the Group faces. This will enable the RCC to spend more time pro-actively identifying and assessing new and emerging risks.

Following the retirement of the Group's Chief Risk Officer ('CRO') Malcolm Hayes at the end of 2019, the Group is pleased to announce the appointment of Ben Whibley as his successor.

Ben has been with the Group for 6 years, previously holding the position of Deputy CRO. Prior to this Ben was CRO for Paragon Bank PLC. The Committee and I would like to wish him well in his new role and look forward to working closely with Ben as the Group continues to enhance its risk management capabilities.

Given the inevitable challenges of Covid-19 and the impact on the risk profile, much of the Committee's agenda since March has focussed on the new and emerging risks from the pandemic and the resultant regulatory, economic and people-related impacts. In particular, the Committee has regularly reviewed:

- The impacts of the revised working arrangements for employees given the UK Government's announcement of a full lockdown in March 2020
- The implementation of payment holidays and other forbearance strategies ensuring customer treatment remains at the forefront of our considerations
- Increased risks and additional mitigation required due to restricted ability to carry out onsite property surveys and the limitations on the completeness of credit bureau data
- The issuance of CBILS and BBLS including the associated credit risk, financial crime and processing risks

The Committee continues to monitor the implications of these changes together with any further regulatory requirements that are being issued to manage customer and prudential risks arising from Covid-19.

Despite the heavy focus on Covid-19 and the heightened risks thereof, the Committee has continued to balance the need to provide close oversight of the developing situation in respect of the pandemic with standing agenda items. This has also included non-Covid-19 specific risks which still require in-depth focus in the normal course of business.

During the coming year, the Committee's priorities will include:

- Ongoing oversight of the Group's response to Covid-19 and any further government or regulatory measures that are implemented
- Continuing to review the potential impacts on the Group of the consequences of UK's decision to withdraw from the EU as the transition period ends in December 2020 and the basis of the future relationship becomes clearer
- Monitoring the progress of the Group in managing exposures to LIBOR as the primary sterling interest rate benchmark as this is phased out
- Continued oversight of the Group's project to implement an IRB approach for credit risk
- Reviewing the Group's progress in enhancing its enterprise-wide risk management framework including ensuring risk appetite remains consistent with delivery of the Group's strategic objectives and proposing any required changes in risk appetite to the Board
- Overseeing the Group's progress on responding to the increasing challenges posed by climate change and addressing any impact this may have on the Group's risk profile
- 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
- Overseeing a review of the Group's culture and any actions identified by it
- Undertaking deep dives in relation to specific risk categories and business areas on both a rolling and ad hoc basis

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 Group responded efficiently, effectively and considerately to the challenge of mobilising the workforce from home in the face of lockdown and in maintaining levels of service across all products. Whilst payment holiday requests were a relatively low percentage across the whole portfolio, the revised processes and associated risks were managed promptly despite the short timeframes within which these were implemented.

The Group also faces added non-Covid-19 specific challenges within the operating environment that could materially impact on the Group's risk profile. These include the transition away from LIBOR which is being overseen through a comprehensive programme to manage the associated risks. However, there are a number of dependencies which will need to continue to be monitored closely to ensure successful delivery.

In addition, the ongoing level of uncertainty surrounding the basis of the UK's status post-2020 following its departure from the EU remains high, with the future of its trading relationships remaining extremely unclear. Whilst I remain confident that the Group has the skills and experience to manage the risks it is likely to encounter in the year ahead, we remain vigilant of the need to reinforce these should circumstances change materially.

As I indicated earlier, this is the last time I shall be writing to you as Chair of Paragon's Risk Committee, as I will be stepping down from the Board at the end of the year. Peter Hill, who was appointed to the Board in October, will take over as Chair of the Committee on my departure, following a handover period.

Looking back over my time with the Group, firstly with Paragon Bank in its earliest years, and then on the main board, the level of progress in the Group's risk infrastructure is striking, I am proud of what has been achieved and of the team we have put together. I would like to thank my fellow directors and the Group's risk function for their support over my tenure as Chair of the Committee, and to extend to them and to Peter, my best wishes for the future.

Finlay Williamson

Chair of the Risk and Compliance Committee

3 December 2020

B8.2 Risk governance

The Group's approach to governance and the committee structures are described in Section B4. This covers revisions during the year including the implementation of a new Executive Risk Committee ('ERC'). The Committee structure and lines of oversight in place at the year end 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, 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, as well as its obligations under significant contracts
- 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 Model Risk Committee ('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 meets with the CRO at least once a year, without the presence of executive management, to discuss their remit and any issues arising from it.

The Committee also has the opportunity to meet 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 including a comprehensive refresh of the risks during 2020
- 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 to enhance credit risk management by implementing an IRB approach
- Monitored and reviewed the potential impacts on the Group of the Brexit process, given the continuing uncertainty around the terms on which the UK might leave the EU
- Conducted deep dive reviews into targeted risk areas, such as the potential impact on the Group of negative interest rates
- Considered regular focussed reviews of key risk areas including credit risk, capital risk, liquidity and market 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 the regulatory consultation paper in December 2019. This has included significant focus on the Group's third party provided services
- Reviewed, challenged and approved the Management Responsibilities Map
- Reviewed, challenged and approved the terms of reference of each of the executive risk committees
- 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')

ERC was established during the year 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 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. Each of these executive committees operates within terms of reference formally approved by the ERC. Their primary functions are described below.

Asset and Liability Committee ('ALCO')

ALCO comprises heads of relevant functions and is chaired by the Chief Financial Officer.

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 Chief Risk Officer.

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; the product governance framework; monitoring reports; and employee incentive schemes. 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 Operational 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 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 staff are expected to understand and have accountability for the risks they take. Appropriate risk management is core to the Group's performance management process. 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.

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

- 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 remains at the heart of all decision-making and is conducted within an open and transparent environment
- The Group only carries out business where the potential risk to itself and its customers has been considered together with the potential reward and where the residual risk exposure remains within its defined risk appetite
- The Group has a risk management framework which ensures that risks are owned and managed in a consistent way

B8.4 Risk Management framework

Introduction

The Group's risk management framework 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 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. A key priority for the Group is to ensure that the framework continues to evolve to reflect the changing landscape and emerging threats necessitating ongoing investment and enhancement in the enterprise-wide risk management system. The Group continues to ensure that the tools for effective risk identification, assessment and monitoring are appropriate and embedded at all levels across the Group. Significant work has been undertaken over the past twelve months, and is ongoing, to develop the framework to support the Group's strategic aspirations. This includes refinement of core risk processes and language and strengthening the committee structure to support effective challenge and escalation.

Risk management framework

The risk management framework 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 risk management framework are to:

- Determine a defined strategy in the Group's attitude to risk including outlining the approach taken in respect of setting qualitative statements and quantitative metrics to measure the Group's tolerance and appetite for risk
- Establish a consistent risk taxonomy which describes the principal risk categories and the more granular aspects of each of these categories
- Promote an appropriate risk culture across the Group ensuring risk is considered as part of 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 and the proactive reduction of the frequency and severity of risk events, driving control improvements where necessary

- Facilitate adherence to regulatory requirements, including threshold conditions, capital standards and to 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 to the information included within these reports

- Determine a suite of risk policies which align to the 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 *first line of defence*, comprising executive directors, together with managers and employees in operational and support areas. The first line has day-to-day responsibility for:

    o Risk identification, assessment and measurement

    o Control and ongoing monitoring of operations

    o Escalation and reporting of risk issues in line with stated appetite

    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* is provided by the Risk function headed by the CRO, who reports directly to the CEO. The function is overseen by the Risk and Compliance Committee and its supporting executive committees. Risk and Compliance provide support and independent challenge on all risk related issues specifically:

    o Developing and maintaining the risk management framework covering all areas of the Group

    o Developing and maintaining risk policies within that framework, ensuring these are consistent with the Board's risk appetite

    o Ensuring that risks generated by the business are measured, monitored, controlled and reported on a timely basis

    o Maintaining open and constructive engagement with the regulatory authorities

- The *third line of defence* 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. Internal Audit provides independent assurance on:

    o First and second lines of defence

    o The appropriateness and effectiveness of internal controls

    o Effectiveness of policy implementation

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 appetite, reporting and escalation obligations and the frequency of review. The framework is subject to annual board approval.

In determining the Group's risk appetite, the following principles are integral:

- Alignment to principal risks

- Alignment to strategic objectives

- Appropriateness of calibration to drive timely action

- 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 who determine whether these are sufficiently material to be reported to the Board.

As part of the evolution of the enterprise-wide risk management framework, work is in progress to ensure that the risk appetite framework continues to mature. Ongoing development is being undertaken to ensure:

- All the revised principal risks have qualitative and quantitative appetites

- There are appropriate Level 1 and 2 appetites monitored on an ongoing basis

- Calibration of appetite is appropriate and will drive timely management action

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. Therefore, the headings shown differ from those presented in previous annual reports. In particular, reputational risk, model risk and climate change risk are separately identified as principal risks for the first time.

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

Risk increasing	Risk decreasing	Risk stable
↑	↓	← →

Capital Risk

Description	Mitigation	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. In addition, the changes made in the Basel III capital regime by the BCBS regarding minimum capital requirements, which will now impact from 1 January 2023 could have an impact on the capital position of the Group.	A robust process exists over Pillar 1 reporting 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 took a strategic decision in 2016 to seek the necessary regulatory approval to implement an IRB ('Internal Ratings Based') approach for credit risk. The first stage of the Group's application for the accreditation of its IRB approach to credit risk for capital adequacy purposes was submitted to the PRA in March 2020. Models have been built and tested, governance frameworks enhanced, and IRB outputs are now being regularly considered internally.	← → Outside of the impact of Covid-19, which resulted in the delay of the BCBS changes by 12 months (to 2023) and policy amendments to the Pillar 2A regime there has been little impact on the overall capital risk framework and the Group's assessment of the likely impact of these changes.

Liquidity and Funding Risk

Description	Mitigation	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, the Group completed a fully retained securitisation which boosted its contingent funding options and also obtained access to the TFSME which remains open for drawings until April 2021.

Market Risk

Description	Mitigation	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 polices in place to ensure that the risk posed by changes and mismatches in interest or exchange rates are effectively managed. Day-to-day management of interest rate risk 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 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, with LIBOR expected to cease to exist before the end of December 2021, the Group will need to transition LIBOR referenced assets and liabilities to alternative risk-free rates, and this process is expected to increase interest rate risk over the next 12 months. A LIBOR Transition steering committee has been established to oversee the transition and the Group is working with several industry and regulatory bodies as part of the process.

Credit Risk

Description	Mitigation	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 residential property in England and Wales at conservative loan-to-value levels. The primary collateral therefore benefits from the features of UK property which 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.	↑ At the onset of the Covid-19 pandemic, the Group immediately tightened credit criteria for new lending to preserve credit standards and reflect immediate lending uncertainty. The Group's credit discipline remains firm, but in view of the wider economic conditions, additional provision for credit losses has been allocated in line with a prudent, forward-looking view of loan performance.

Model Risk

Description	Mitigation	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.

Pension Obligation Risk

Description	Mitigation	Change
The Group's commitments under its defined benefit scheme expose it to the risk that the assets of the scheme may be insufficient to meet its liabilities.	The Group conducts regular asset-liability reviews in conjunction with the Trustee to determine the optimal long-term asset allocation with regards to the structure of liabilities within the Plan. The Plan is subject to triennial formal valuation by the Plan actuary. The valuation process as at 31 March 2019 was completed in the year, including the agreement of a recovery plan between the Trustee and the Group which will aim to clear the deficit in the Plan. As part of that agreement a £20.0 million additional contribution was made in the year.	Despite short-term fluctuations caused by market instability in interest rates and asset prices, the Group considers the underlying long-term funding position for the Plan to be robust and sustainable. The additional contribution made in the year has reduced the scope for further commitments.

Reputational Risk

Description	Mitigation	Change
Maintenance of a strong reputation across all lines of business 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. The Group has an experienced External Relations function who manage all Group communications and ensure 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. 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	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.	↑ UK economic performance remains highly uncertain. The medium and longer- term impacts of Covid-19 are still to be determined. Whilst the Group has continued to remain resilient in the immediate crisis, the potential for future waves of the pandemic and associated lockdowns still present a significant risk. In addition, there is still a lack of clarity as to the basis of the UK's withdrawal from and future relationship with the EU. The continuing high levels of uncertainty have resulted in an increase in the overall risk assessment.

Climate Risk

Description	Mitigation	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 mitigation, 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 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.	← → During the year the CFO has been assigned the SMF with responsibility for climate change and has taken the lead in developing Paragon's understanding of the issue. The Board has adopted climate change as a new principal risk. A working group reporting to ERC has been established to consider the plan of work required to embed the management of climate related risks within the Group.

Conduct Risk

Description	Mitigation	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 staff are included in financial incentive schemes. All schemes are required to be approved by the CCC before implementation and then reviewed by the CCC at least annually.	↑ Given the unprecedented challenges of Covid-19 and the need to respond quickly to changing circumstances, there is a heightened risk that customer outcomes have not been fully considered or unintended consequences may arise.

Operational Risk

Description	Mitigation	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 enhanced its operational risk framework over the last 18 months to ensure that it is comprehensive and 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.	↑ Inevitably with the Covid-19 pandemic there have been increased challenges in managing the business operations. The impacts of new working arrangements, rapid redeployment of people to support additional processes such as payment holidays and the need to manage the IT challenges arising as a consequence, increase the risk that process failings may occur. Whilst the Group has successfully navigated the transition to operating effectively in the pandemic environment, given the ongoing uncertainties and economic outlook, the potential for operational risk issues remains heightened.

B9. Directors' report

The directors of Paragon Banking Group PLC (registered number 2336032) submit their Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('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 Alison Morris, who was appointed as a director on 26 March 2020, and Peter Hill, who was appointed as a director on 27 October 2020, after the year end. In addition, Peter Hartill retired on 30 September 2020.

Finlay Williamson has announced his intention to step 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 2020.

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 2018. 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.

The Company is proposing to amend its Articles with the principal changes primarily to reflect best market practice and changes in light of the Code. A resolution to adopt the amended Articles is to be proposed at the forthcoming AGM, with explanatory notes on the proposed changes to be found in the Notice of AGM circulated with this Annual Report.

Under Article 85 of the Articles, certain directors are required to submit themselves for reappointment. In accordance with the Code, however, the Board has decided that it is appropriate for all directors to submit themselves for reappointment on an annual basis. Accordingly, all current directors, other than Finlay Williamson, who has announced his intention to step down from the Board on 31 December 2020, will retire and seek reappointment at the AGM.

Annual retirement of directors will be required by the amended Articles to be proposed at the forthcoming AGM.

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

Directors' indemnity and insurance

Under Article 161 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 of 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 38 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 52 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 £85.3 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 24 February 2021 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 13 February 2020 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.

The number of treasury shares held at 30 September 2020 was 5,218,702 (2019: 5,218,702), representing 2.03% of the issued share capital excluding treasury shares (2019: 2.04%). The maximum holding of treasury shares during the year was 5,218,702 (2019: 21,769,034). The highest proportion of issued share capital excluding treasury shares held during the year was 2.04% (2019: 8.37%).

Dividends

The directors recommend a final dividend of 14.4p per share (2019: 14.2p per share) which would give a total dividend for the year of 14.4p per share (2019: 21.2p per share). No interim dividend was paid during the year (an interim dividend of 7.0p per share was paid in 2019).

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 2020.

Shareholder	% Held	Notification date
Dimensional Fund Advisers LP	**5.0%**	09/08/19
Franklin Templeton Fund Management	**5.0%**	21/02/19
Liontrust Investment Partners LLP	**5.1%**	21/09/20
M&G PLC	**6.6%**	22/10/19
Norges Bank	**5.0%**	27/03/20
Royal London Asset Management	**7.0%**	19/09/19

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

On 12 October 2020, Norges Bank notified the Company that it had reduced its interest to 5.0%. On 13 November 2020, J O Hambro Capital Management Limited notified the Company that it had increased its interest to 5.0%. As at 2 December 2020, 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 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 2020 no political donations were made by any Group company (2019: £nil).

Auditors

The directors have taken all reasonable steps to make themselves and the Company's auditors, KPMG LLP ('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 Annual General Meeting of the Company will take place on 24 February 2021 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.

At the present time, there remains uncertainty as to the impact that Covid-19 will have on the Company's AGM in 2021. The Board's current expectation is that government guidance may allow shareholders to attend the meeting in person. If this is not the case the Group will put in place alternative arrangements to allow shareholders to communicate their views, within the paraments set out by the UK Government.

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 40).

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 1.5 million ordinary shares. 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 40 and details of the share-based remuneration arrangements are given in note 52.

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 55 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 2020, 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

3 December 2020

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 2020, that law includes the Companies Act 2006 ('the Act') and Article 4 of the IAS Regulation. That law requires the directors to prepare the consolidated financial statements in accordance with IFRS as adopted by the EU and they have also elected to prepare the financial statements of the Company in accordance with IFRS as adopted by the EU.

International Accounting Standard 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 financial statements have been prepared in accordance with IFRS as adopted by the EU and whether the company financial statements have been prepared in accordance with the Act
- 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 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

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

- The financial statements, prepared in accordance with IFRS as adopted by the EU, 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 Disclosure Guidance and Transparency Rules, 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 performance, business model and strategy.

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

Marius van Niekerk

Company Secretary

3 December 2020