B.

Corporate Governance

How the Group is run and how risk is managed

Our values

PROFESSIONALISM

To maintain the highest standards and deliver our products and services with care and accuracy

> The Board appreciates the value which the Group's corporate governance framework brings to its activities and the part which the Code plays in that. We seek to comply with the Code wherever possible, and I hope that as the Code develops, its requirements will remain attainable, relevant and proportionate.

Robert East, Chair of the Board

B1. Chair's statement on corporate governance

Dear Shareholder

This section of the Annual Report and Accounts describes the Group's corporate governance processes and explains how the Board and its committees have addressed the significant strategic issues facing it in the year. This year's challenges have included the impact of the rapidly changing economic landscape in the UK over the last twelve months on the Group's strategy, businesses and risk profile and monitoring the Group's ongoing digitalisation activities, which are fundamental to its strategy going forward.

This was my first full year as Chair, having taken office on 1 September 2022, and a significant part of my tenure to date has involved familiarising myself with the Group, its operations and its people, and particularly how the Group's corporate governance framework operates.

During the year an independent external evaluation of the Board's effectiveness was carried out, which I found very useful in evaluating how the Board needs to develop in the future, adopting emerging best practice and responding to the Group's progress towards its strategic goals.

I have also followed with interest the emerging results of the UK Government's review of Corporate Governance and Auditing, including the potential for the creation of a new regulator for external audit, corporate reporting and governance in place of the FRC, together with the proposals for an updated UK Corporate Governance Code (the 'Code'), where the regulator has recently announced a significantly changed approach.

The Board appreciates the value which the Group's corporate governance framework brings to its activities and the part which the Code plays in that. We seek to comply with the Code wherever possible, and I hope that as the Code develops, its requirements will remain attainable, relevant and proportionate. In this context we welcome the recent statements by the UK Government and the FRC, suggesting a more focussed approach to reform than that originally consulted upon.

Engagement

As a board, we value feedback from shareholders and other stakeholder groups, both outside and inside the organisation. I was pleased to note the level of shareholder support for the Group's new remuneration policy at the 2023 AGM, a policy which was developed through extensive consultation with shareholders, proxy agencies and other investor groups during the year. I have also been pleased to have had the opportunity of meeting a number of shareholders during the year. These conversations provide the Board with valuable insights into other investor issues and priorities. I would like to thank those stakeholders who made time to meet with us, and would encourage all stakeholders to take advantage of opportunities for dialogue when they arise in the future.

During the last twelve months I have attended several meetings of the Group's People Forum, and I found the perspective the Forum members offered on the Group and its businesses a significant help in developing my understanding of the organisation. I have also spent time with people across the Group as part of my induction process, and I thank them for their insights.

Inclusion

Inclusion and diversity continue to be a priority for me and my fellow directors, both within the boardroom and more widely across the Group. Our strategy requires continuous development of products, people and processes and that cannot be achieved without diversity of thought and outlook at all levels. I was pleased to note the continuing development of the Group's internal diversity networks in the year, and am proud of the work the Group's people have done to support industry initiatives in this field.

At board level I am pleased to be able to report that we are compliant with the new FCA Listing Rule on diversity, and able to state that we have met the FCA's diversity targets for boards. We continue to support the Women in Finance initiative, and are moving to a position where we will be able to announce our Parker Review targets for ethnic diversity amongst management in line with the timescales specified by the review committee.

Effectiveness

During the year an externally facilitated review of the Board's effectiveness was completed. This was delayed from 2022, due to the board changes in that year, including my appointment as Chair in September 2022. The results of the review were very positive, and I found the process most helpful in forming my views on the future development of the Board and its operations, as an incoming chair. As a result of the review some areas for development were identified and I look forward to the benefits these will bring to the Board and its deliberations.

Board changes

In June I was pleased to welcome Zoe Howorth to the Board as an additional non-executive director. Her background in consumer-facing marketing roles brings a different perspective to the Board's discussions, and I look forward to her contributions over the years to come.

In November 2023, Hugo Tudor reached the ninth anniversary of his appointment to the Board and during the year he handed over his responsibilities as Senior Independent Director to Alison Morris. Preparations are also in progress for Hugo to hand over his duties as Remuneration Committee Chair once the Committee's work on the 2022/23 remuneration cycle is complete.

Conclusion

I am confident that not only has the Board complied with the requirements of the Code and its other legal and regulatory obligations, but that it has successfully discharged its responsibilities to ensure the good governance of the Group and its businesses. I cordially invite shareholders to join us on 6 March 2024 in London for our Annual General Meeting, where there will be an opportunity to put questions to the Board. I hope to see as many shareholders as possible in attendance.

Robert East

Chair of the Board

6 December 2023

B2. Corporate Governance Statement

The Board is committed to the principles of corporate governance contained in the UK Corporate Governance Code issued by the FRC in July 2018 (the 'Code'). Throughout the year ended 30 September 2023, the Company complied with the principles and provisions of the Code.

The appointment of the new Chair of the Board in September 2022 also resulted in the Company adopting a 'comply and explain' approach to Provision 21 of the Code, which requires a Board to undertake a formal and rigorous annual evaluation of the performance of the Board, its committees, the Chair and individual directors. During 2022 the decision was taken to defer the evaluation to the year ended 30 September 2023 to allow the new Chair sufficient time in post to make the evaluation more relevant and meaningful. The externally facilitated board evaluation for 2023 was completed and is discussed further in Section B4.4.

The table below references the individual Code Principles to the sections of this report which provide supporting information explaining how they have been applied.

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

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

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

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

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

B3. Board of Directors and senior management

Robert D East

Chair of the Board
Nomination Committee Chair
(Age 63)

Appointed to the Board as Chair of the Board in 2022.

Experience

Robert has over 40 years' experience in UK financial services, including at board level, as CEO and Chair.

During his executive career he held senior roles at Barclays. He was also CEO of Cattles, where he led the restructuring and wind down of its operations from 2010 to 2016.

He has held positions as Chair of Vanquis Bank, Skipton Building Society and Hampshire Trust Bank. He has previously served as a non-executive director on the boards of Provident Financial Group, Skipton Building Society and Hampshire Trust Bank, where he was also Chair of the Risk Committee.

Robert holds a Diploma in Financial Studies (DipFS) from the London Institute of Banking and Finance and is an associate of the Chartered Institute of Bankers ('CIB').

Specific areas of expertise*

- Strong track record of leading and chairing financial services businesses
- Extensive experience in, and understanding of, banking and the financial services sector
- Significant experience of leading transformational change

Current external appointments

Director of RCWJ Limited

Key

Committee memberships at 30 September 2023 are indicated as follows.

- ★ Nomination Committee
- ▲ Audit Committee
- ◆ Remuneration Committee
- ⬢ Risk and Compliance Committee
- ● Disclosure Committee

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.

Nigel S Terrington

Chief Executive

(Age 63)

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

Experience

Nigel'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.

Nigel takes an active role in engaging with regulators and government on banking matters, particularly those which impact the UK mid-tier banking community.

He is a member of HM Treasury's Home Finance Forum and, until September 2023, was on the Board of UK Finance. Nigel was previously Chair of UK Finance's Specialist Bank Advisory Committee, Chair of the Council of Mortgage Lenders ('CML'), Chair of the Intermediary Mortgage Lenders Association ('IMLA'), Chair of the FLA Consumer Finance Division and a board member of the FLA.

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

Specific areas of expertise*

- Strategic and detailed understanding of banking and of the Group, its markets, its operations and its people
- Leadership of the Group's diversification from a monoline buy-to-let lender to a broadly-based specialist banking group
- Long term, through-the-cycle expertise, including successful management of the Group through the 1992 and 2007 financial crises

Current external appointments

Member of HM Treasury's Home Finance Forum

Richard J Woodman

Chief Financial Officer

(Age 58)

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

Experience

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

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

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

Specific areas of expertise*

- Broad 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 and reporting, liquidity, stress testing and capital management
- Executive director responsible for climate change matters and, alongside the Group's Chief Risk Officer, Richard takes a lead on progressing Paragon's IRB accreditation

Current external appointments

Director of Woodman Portfolio Holdings Limited

Director of Rose Wine Limited

Alison C M Morris

Non-executive director

Audit Committee Chair

(Age 64)

Appointed in 2020 – three years served.

Senior Independent Director since August 2023.

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 led audit projects for a range of banking clients, as well as other companies across the FTSE 100 and FTSE 250 and 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

Current external appointments

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

Non-executive director of Sabre Insurance Group PLC and Sabre Insurance Company Limited

Chair of the Audit Committee at M&G Group and Sabre Insurance Group

* 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

Peter A Hill

Non-executive director

Risk and Compliance Committee Chair

(Age 62)

Appointed in 2020 – three years served.

Experience

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

He is Chair of Mortgage Brain Holdings Limited and was a non-executive director and Chair of the Risk Committee at Pure Retirement from 2019 until 2022.

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

Peter is a fellow of the Royal Society of Arts and an associate of the CIB.

Specific areas of expertise*

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

Current external appointments

Chair of Mortgage Brain Holdings Limited

Director, Trustee and Chair of the Finance & Governance Committee of Leeds Rugby Foundation

Deputy chair and Treasurer, Leeds Rugby Foundation Services Limited

Hugo R Tudor

Non-executive director

Remuneration Committee Chair (until 7 December 2023) (Age 60)

Appointed in 2014 – nine years served.

Senior Independent Director between July 2020 and August 2023.

Experience

Hugo 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

Current external appointments

Director of Damus Capital Limited

Director of Porthcothan Property Limited

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

Barbara A Ridpath

Non-executive director

(Age 67)

Appointed in 2017 – six years served.

Experience

Barbara 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.

Barbara is currently a non-executive director of ORX in Switzerland, a trade association for non-financial operational risk professionals (including cyber risk), and a director of ORX UK Limited. Until recently she was a non-executive director of Open Banking Limited.

Specific areas of expertise*

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

Current external appointments

Non-executive director of ORX in Switzerland and director of ORX UK Limited

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

Non-executive director of Change Banking Limited

Member of the International Advisory Council of the Institute of Business Ethics

Graeme H Yorston

Non-executive director

(Age 66)

Appointed in 2017 – six years served.

Experience

Graeme Yorston was Group Chief Executive of Principality Building Society, the sixth largest mutual in the UK. He has over 49 years' experience in financial services having carried out a number of senior roles at Abbey National (now Santander) including IT Director for the Retail Bank and Regional Director, and ran a number of significant change programmes.

Graeme has served on the CBI Council for Wales, the Board of Business in the Community in Wales and was the Prince of Wales's 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 CIB, holds an MBA from Warwick Business School and was awarded an Honorary Doctorate in Business Administration by Cardiff Metropolitan University in 2017.

Specific areas of expertise*

- Strong retail banking sector knowledge and experience, particularly in marketing, communications and customer service
- Detailed experience of overseeing business change and IT systems
- Board Champion for Consumer Duty

Current external appointments

None

Tanvi P Davda

Non-executive director

(Age 51)

Appointed in 2022 – one year served.

Becomes Chair of the Remuneration Committee from 7 December 2023.

Experience

Tanvi brings a diverse range of skills and knowledge to the Board. With an executive career of more than 25 years, Tanvi began her career at Credit Suisse as a derivatives trader, then went on to work with IBM as a management consultant before joining ABN AMRO, and then Barclays Wealth, where she was Managing Director of Global Research and Investments.

In 2015, Tanvi co-founded the wealth management firm, Saranac Partners, where she was CEO until 2021 and a non-executive director until 2022.

Tanvi's non-executive career has also included roles on the Board of Ofqual, the qualifications and examinations regulator, and the Student Loans Company.

Specific areas of expertise*

- Strong finance, advisory and regulatory experience

Current external appointments

Director of Ashrah Advisory Limited

Director of CLC Services Limited

Trustee for Cheltenham Ladies College

Zoe L Howorth

Non-executive director

(Age 52)

Appointed on 1 June 2023 – less than a year served.

Experience

Zoe brings an extensive range of skills and experience to the Board. Zoe's executive career included over sixteen years' experience at the Coca-Cola Company across a variety of roles that culminated in her role as UK Marketing Director.

Zoe is a Board member of AG Barr PLC, a FTSE 250 consumer goods business, where she is chair of the ESG Committee and member of the Remuneration Committee.

She is also a Fellow of Chapter Zero, which works in partnership with the Global Climate Initiative to build a community of non-executive directors equipped to lead crucial UK boardroom discussions on the impact of climate change as organisations transition from ambition to action.

Specific areas of expertise*

- Extensive fast-moving consumer goods, consumer brand and digital marketing expertise
- ESG strategy and governance

Current external appointments

Non-executive director: AG Barr PLC

Non-executive director: International Schools Partnership Limited

Non-executive director: Water Babies Group Limited and TCA Children First 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

B3.2 Executive Committee

The members of the Group's executive committees are set out below, together with their tenure in their current role.

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

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

Richard Rowntree
Managing Director – Mortgages
Since 2020

Dave Newcombe
Managing Director – Commercial Lending
Since 2019

Michael Helsby
Strategic Development Director
Since 2018

Zish Khan
Chief Operating Officer ('COO')
Since 2022

Peter Shorthouse
Treasury and Structured Finance Director
Since 2010

Deborah Bateman
External Relations Director
Since 2009

Anne Barnett
Chief People Officer ('CPO')
Since 2009

Marius van Niekerk
General Counsel
Since 2019

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

All members sit on both the Executive Performance Committee ('Performance ExCo') and the Executive Risk Committee ('ERC'). The Internal Audit Director, Sarah Mayne, attends meetings of both committees as an observer.

B3.3 The Board's activities in the year

Matters considered by the Board

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

- Continued consideration of the impact of interest rate volatility, inflation and other macro-economic uncertainties in the UK on the Group
- Monitoring progress of the Group's digitalisation programme
- Oversight of the Group's implementation of the FCA Consumer Duty which went live in the year

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

A non-exhaustive list of other significant matters overseen by the Board during the year is set out below by theme:

Topic	Meeting
Business strategy	
Update on the Group's change programme	Oct 2022, Jan, Apr, Jul 2023
Approval of the corporate plan for the financial years ending 2022 to 2027. More detail on the Group's strategy can be found in sections A3 and A4	Nov 2022
Market update following the mini-budget announcement provided by an economic research consultancy	Nov 2022
Update on a programme of work that looks at implementing changes to the Group's target operating model, ways of working, governance and building requirements	Dec 2022
Detailed update on progress of significant elements of the Group's digitalisation strategy	Jan 2023
Deep dive review of the Group's development finance business provided by senior management from the area	Mar 2023
Deep dive review of the Group's savings business provided by the Savings Director	Mar 2023
Market update on the financial services sector provided by an investment bank	Apr 2023
Deep dive review of the Group's SME lending business provided by senior management from the area	Apr 2023
Deep dive review of the Group's Mortgage Lending business provided by the Managing Director - Mortgages which included an update on the Private Rented Sector	May 2023
Update on corporate development opportunities	Sep 2023
Risk and regulation	
Approval of the Group's Consumer Duty Implementation Plan and appointment of Graeme Yorston as Paragon's Consumer Duty Board Champion	Oct 2022
Update on the Consumer Duty Programme and final approval of the detailed Consumer Duty Implementation Plan	Dec 2022
Review of the proposed approach to reporting management information relating to the FCA Consumer Duty	Mar 2023
Progress update on implementation of Consumer Duty management information reporting	Apr 2023
Progress update on the Consumer Duty Programme	Jul 2023
Update on the Group's IRB application	Mar 2023
Consideration of the PRA's Consultation Paper 16/22 on the implementation of Basel 3.1 standards and its strategic implications for the Group's capital	Mar 2023

Topic	Meeting
Risk and regulation	
Approval of the 2023 ICAAP	Jul 2023
Review of elements of the 2023 Recovery Plan	Apr 2023
Approval of the 2023 Recovery Plan	Jul 2023
Training on the 2023 ILAAP	Jul 2023
Annual review and approval of the Group's principal risk categories	Jul 2023
Consideration of the implications of the FCA's 14-point action plan on savings for the Group's deposit business	Sep 2023
Cyber security / operational resilience	
An update from the COO on technology and change in the Group	Mar 2023
Approval of the Group's operational resilience self-assessment	Mar 2023
Corporate governance	
Recommendation of the declaration of a final dividend of 19.2 pence per share in respect of the financial year ended 30 September 2022 and of a share buy-back programme for 2023 (with £50 million announced with the preliminary results)	Dec 2022
Consideration of succession planning for the Board and senior management in conjunction with the Nomination Committee	Feb & Jul 2023
Annual review of the Corporate Governance Policy Framework	Mar 2023
Approval of the cancellation of the Company's capital redemption reserve by way of a court-approved reduction of capital, to increase its distributable reserves	Mar 2023
Consideration of the annual whistleblowing report, which provided the Board with the assurance of the integrity of the Whistleblowing Policy, independence of the process and details of disclosures and developing trends identified during the reporting period, and approval of the Whistleblowing Policy	Mar 2023
Approval of the Modern Slavery Statement and Policy following an annual review	Mar 2023
Annual review of tax strategy and compliance, and approval of policy statement	Mar 2023
Approval of the declaration of an interim dividend of 11.0 pence per share and an agreement to increase the total amount of the share buy-back programme from £50.0 million to £100.0 million as part of the half year consideration of the Group's capital position	May 2023
Annual review of the Group's purpose, to confirm that it remained relevant and appropriate for the next twelve months. When making this assessment the Board considered the Code requirement that the Group's purpose should align with its culture	Jul 2023
Consideration of the Board evaluation findings. Further detail on this can be found in Section B4.4	Sept 2023

Topic	Meeting
Sustainability	
Consideration of shareholder feedback following the full year results announcement	Dec 2022
Customer insights update which included intermediary and customer feedback	Jan and Apr 2023
Update on employee feedback through the Nomination Committee. This was obtained through surveys, the EDI Network and the employee-led People Forum, amongst other channels	Feb and July 2023
Sustainability / climate change update	May 2023
Annual review and approval of the Group's Equality, Diversity and Inclusion Policy	Jul 2023
Assessment of shareholder feedback following the half year results announcement	Jul 2023
Consideration of insights from the Group's employee engagement survey	Sep 2023

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

In addition the CEO's reporting to the Board provided regular updates on:

- The Group's change programme
- Operational resilience
- Sustainability
- People
- Corporate development opportunities

Board and committee attendance

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

Board and committee attendance

Director	Board	Audit Committee	Risk and Compliance Committee	Remuneration Committee	Nomination Committee
Robert D East	10 (10)	-	5 (5)	5 (5)	3 (3)
Nigel S Terrington	10 (10)	-	-	-	-
Richard J Woodman	10 (10)	-	-	-	-
Tanvi P Davda	10 (10)	-	5 (5)	5 (5)	-
Peter A Hill	10 (10)	5 (5)	5 (5)	-	-
Zoe L Howorth	2 (2)	-	1 (1)	2 (2)	-
Alison C M Morris	10 (10)	5 (5)	5 (5)	5 (5)	1 (1)
Hugo R Tudor	10 (10)	5 (5)	5 (5)	5 (5)	3 (3)
Barbara A Ridpath	10 (10)	5 (5)	5 (5)	-	3 (3)
Graeme H Yorston	10 (10)	-	5 (5)	5 (5)	3 (3)

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

B4. Governance Framework

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

B4.1	B4.2	B4.3
Board and committee structure – the forums through which corporate governance operates and how they relate to each other	Elements of the governance framework – how the framework operates	Board and stakeholders – how the Board discharges its duty to promote the success of the Group having regard to stakeholder interests
B4.4	**B4.5**	**B4.6**
Board evaluation – how the Board ensures the framework is, and will remain, fit for purpose	Board training – how the Board ensures that its members develop and maintain the necessary level of skills and knowledge for the framework to operate as required	Whistleblowing – how concerns may be raised and the action that is taken

B4.1 Board and committee structures

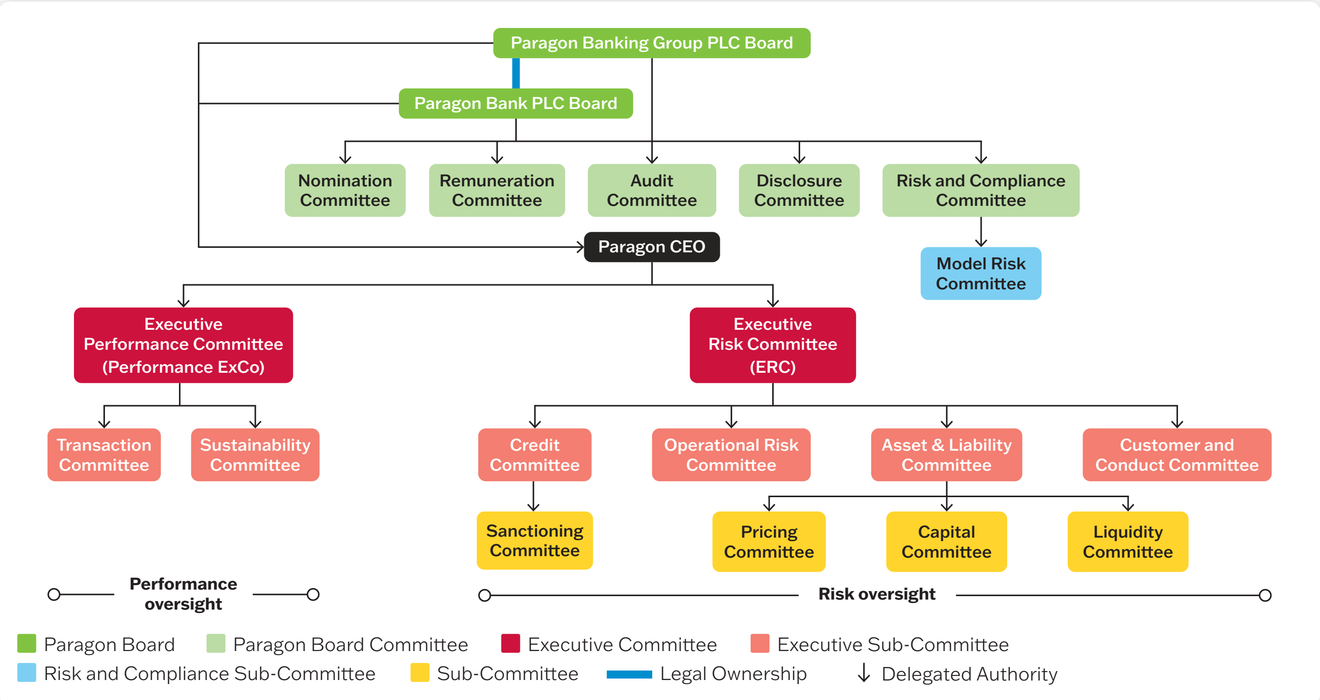
Board leadership, group purpose and the Group Corporate Governance Policy Framework

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, assisted by its committees, governs 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 and are thereafter provided with annual training updates.

Board and committee structure and membership

The Board and the CEO operate through a number of sub-committees covering a range of matters, set out below.



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

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

Members	Independent non-executive	Audit	Remuneration	Risk and Compliance	Nomination
R D East	Chair*	No	Yes	Yes	Yes
T P Davda †	Yes	No	Yes	Yes	No
P A Hill	Yes	Yes	No	Yes	No
Z L Howorth	Yes	No	From 1 June 2023	From 1 June 2023	No
A C M Morris	Yes	Yes	Yes	Yes	Yes
H R Tudor	Yes	Yes	Yes	Yes	Yes
B A Ridpath	Yes	Yes	No	Yes	Yes
G H Yorston	Yes	No	Yes	Yes	Yes

* Considered independent on appointment as Chair of the Board of Directors on 1 September 2022.

† To become Chair of the Remuneration Committee and a member of the Nomination Committee from 7 December 2023.

In addition to the above, Hugo Tudor attends Model Risk Committee meetings, representing the non-executive directors.

Hugo Tudor reached nine years on the Board on 23 November 2023. The Board considered the extension of his appointment beyond this point and agreed that it should be extended for an additional one-year period given the value and knowledge he contributes to the Board and to ensure an effective transition of duties to the new Senior Independent Director and the new Chair of the Remuneration Committee. The Board agreed that Hugo would be deemed to be a non-independent non-executive director from the conclusion of the 2024 AGM. He will hand over his duties as Remuneration Committee Chair to Tanvi Davda on 7 December 2023, having taken part in the finalisation of remuneration matters pertaining to the financial year ended 30 September 2023. Further details on Hugo's re-appointment and independence are set out in sections A4.5.2 and B5.3.

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

An informal 'NED Technology Change Group' was also established in 2021 comprising some of the non-executive directors, the COO and senior managers from the IT and Change functions. The group met in November 2022, and in March, June and September 2023 as part of an ongoing programme of meetings to provide updates on the change programme (the methods and processes of making changes to the Group's IT systems and business procedures), the IT strategy and wider technology trends. The meetings also facilitated challenge by the non-executive directors and increased their understanding of current issues and developments in these areas.

Executive committee structures

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

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

The ERC supports the CEO with monitoring adherence to risk appetite statements and identifying, assessing and controlling the principal risks within the Group and reporting on these to the Board. The ERC also reviews the appropriateness and effectiveness of the Group's risk management framework as appropriate from time to time, and reviews and considers emerging risks facing the Group.

Sub-committees

Performance ExCo sub-committees

The Sustainability Committee reports directly to the Performance ExCo. Its members are the External Relations Director, who chairs the committee, Balance Sheet Risk Director, Director of Treasury and Structured Finance, Managing Director – Commercial Lending, Managing Director – Mortgages, COO, Savings Director, Chief People Officer and Enterprise Risk Director. The Committee's purpose is to deliver a coordinated, transparent approach to sustainability matters, including key areas such as environmental impacts (including climate change), social considerations, commercial implications, disclosure and insight.

The Transaction Committee, which reports directly to the Performance ExCo, consists of the CEO, the CFO, the Director of Treasury and Structured Finance and the CRO, any two of which can form a quorum, but that quorum must include either the CEO or CFO. The Committee meets to consider potential acquisitions or disposals of assets, where these are not large enough to require consideration by the Board as a whole, and to provide oversight of the acquisition, due diligence and migration process.

ERC sub-committees

Four principal executive risk sub-committees, with membership consisting of appropriate senior employees, report to the ERC. All these committees are described further in the Risk Management Section, B8. The governance structure also includes further sub-committees which provide focus on specific risk elements, and report to the principal sub-committees.

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

B4.2 Elements of the Governance Framework

Culture

The Group is proud of its culture and was accredited with Platinum Investors in People ('IIP') status in May 2022. The Board considered the Group's culture as part of the annual review of the Group's purpose in July 2023.

To assess and promote the Group's culture, non-executive directors have attended People Forum meetings as part of the Board's commitment to engage directly with the workforce. Further detail can be found at B5.3. In addition, the Group ran an employee survey in May 2023, which included specific questions on the Group's culture. Results from this survey, together with feedback received via the People Forum, were reviewed in depth by the Nomination Committee on behalf of the Board, with the Board subsequently considering the results itself. The strong employee engagement and employee attestations, including that the employees lived the Company's values and purpose, were noted.

Matters Reserved for the Board

The schedule of matters reserved for the Board is reviewed annually and made available on the Group website. The document details key matters which are required to be or, in the interests of the Company and its stakeholders, should only be decided by the Board. Whilst a number of matters are reserved for the Board, the Board delegates certain responsibilities and authorities to the CEO, CFO and Board committees.

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

There is a clear division of responsibilities 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 overall effectiveness thereby promoting the high standard of corporate governance to which the Company subscribes. The CEO leads the day-to-day executive management of the business and provides regular reporting to the Board.

The respective responsibilities of the Chair of the Board, the CEO and the Senior Independent Director are set out in the division of responsibilities statement, which is reviewed by the Board annually and made available on the Group's website.

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

Role of independent non-executive directors

Throughout the year the independent non-executive directors have formed the majority of the Board, providing effective balance and challenge. While the Board has determined that Hugo Tudor will cease to be considered independent following the 2024 AGM, non-executive directors will still form a majority of the Board at that point.

In addition to the general legal and regulatory responsibilities of all directors, non-executive directors' more specific responsibilities include providing independent oversight. Non-executive directors who are members of the Remuneration Committee determine appropriate levels of remuneration for executive directors. Non-executive directors take into account the views of shareholders and other stakeholders, and certain directors attended People Forum meetings during the year, which provided an opportunity for engagement with the Group's people. More detail on these interactions can be found in section A4.6.3.

During the year Hugo Tudor attended the MRC on behalf of the independent non-executive directors. On 27 October 2022, Graeme Yorston was appointed as the Consumer Duty Board Champion, as part of the Group's implementation of the new FCA Consumer Duty principles. As outlined in section B4.1, certain non-executive directors also meet with the change and IT functions throughout the year.

All non-executive directors are appointed for fixed terms and must ensure they have sufficient time available to discharge their responsibilities and regularly update their knowledge and familiarity with the Group's business. The Chair of the Board was considered independent on appointment on 1 September 2022. The non-executive directors meet with the Chair, from time to time, without the executive directors being present.

At the AGM, the Chair of the Board will confirm to shareholders, when proposing the re-election or 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

Alison Morris succeeded Hugo Tudor as Senior Independent Director on 14 August 2023, during the financial year. The Senior Independent Director provides a sounding board for the Chair and serves as an intermediary for the other directors when necessary. The Senior Independent Director is available to shareholders if they have concerns and where contact through the normal channels has failed to resolve such concerns or for which such contact is inappropriate.

During the year Hugo Tudor met with shareholders to discuss governance and remuneration matters and to address any queries or concerns raised. Going forward, Alison Morris will seek engagement with, and be available to, shareholders, and the new Remuneration Chair Tanvi Davda, will also do the same with respect to remuneration matters. More detail on the engagement with shareholders regarding remuneration matters can be found in section B7.

The Senior Independent Director is responsible for leading the appraisal of the Chair of the Board's performance with the non-executive directors. As part of the external board evaluation carried out in the year, which is described in section B4.4, an appraisal of the Chair was carried out by the external evaluator, the output of which was shared with the Senior Independent Director.

Conflicts of interest

The Board has agreed a policy for managing conflicts and a process to identify and, if appropriate, 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, which is reviewed by the Board twice a year.

The Board recognises the benefits that can flow from non-executive directors holding other appointments but requires them to disclose the nature and extent of any such commitments to the Board (in accordance with the Articles of Association) before entering into any arrangements that might affect the time they can devote to the Group.

Executive directors would not normally be expected to hold any significant external directorships. However where external directorships are held or proposed to be held, this is discussed with the Chair and disclosed to the Company Secretary for individual consideration.

Company Secretary

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that board procedures are complied with, advising the Board on governance matters, supporting the Chair, and helping the Board and its committees to function efficiently. Both the appointment and removal of the Company Secretary are matters reserved for the Board. The Board approved the appointment of Ciara Murphy as Company Secretary effective from 1 October 2022, at its September 2022 meeting.

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).

The Board is mindful of the FCA Listing Rule requirements in relation to gender and ethnic diversity at board and executive management level, which are applicable to the Group from its current financial year which began on 1 October 2022. These requirements are a particular area of focus for the Board and the Nomination Committee. The Group was fully compliant with these requirements for its year ended 30 September 2023 and the Board expects that it will remain so. The Board is also mindful of the targets set by the FTSE Women Leaders Review and Parker Review as detailed further in section B5.

Board evaluation and training

The Board, individual directors and the Board's main committees are reviewed annually, and the Group's policy is that externally facilitated reviews should take place triennially, as required by the Code. An externally facilitated Board evaluation took place during the year. This was deferred from 2022 to ensure that the Chair had been in position for a reasonable period of time to make the evaluation more relevant and meaningful. Further details 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 B3.3 and section B4.5.

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 to raise concerns anonymously. Information on whistleblowing is provided in section B4.6.

Further information

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

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

B4.3 Board and Stakeholders

Consideration of stakeholders

In addition to good corporate governance, maintaining a reputation for high standards of business conduct in all the Group's operations is a key priority for the Board, and management of conduct risk is a key part of the risk management framework. Section A6 sets out information on corporate responsibility and sustainability, 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 long-term, sustainable success of the Group for the benefit of its shareholders and with regard to the interests of all of its stakeholders.

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

The Board confirms that, for the year ended 30 September 2023, it has acted to promote the success of the Group for the benefit of its members as a whole and continues to have due regard to the following matters laid out in S172 (1) of the Companies Act 2006:

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

b. The interests of the Company's employees;

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

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

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

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

Companies are required to describe in the Annual Report how the directors have had regard to the matters set out above when performing their duties. The table below sets out how the Board and senior management take the above factors into account when engaging with the Group's key stakeholders, how this is aligned to the Group's strategic priorities and culture and why the stakeholders listed are significant for the Group.

Shareholders

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

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

How we engage and / or monitor

- The Group has an Investor Relations Programme, under which 46 meetings were held with shareholders and analysts. In addition, the CEO and CFO hold regular analyst briefing meetings
- A comprehensive update on Investor Relations is included in the CEO's report presented at each Board meeting
- After commencing a wide-ranging consultation process in 2022, covering remuneration policy and other governance issues, the SID/Chair of the Remuneration Committee continued to engage with major shareholders and shareholder advisory groups before and after the 2023 AGM
- The Board receives an in-depth update on Investor Relations, which includes investor feedback, following the publication of the Company's financial results

Capital management

Growth

Diversification

Digitalisation

Outcome

- The data on shareholder feedback provided helps the Board align the Group's strategy with the interests of shareholders
- Shareholder feedback was taken into account when designing the new Remuneration Policy which was approved at the 2023 AGM, with 96.99% of the votes cast
- Increasing shareholder interaction is helping to frame the Group's response to reporting and targeting in relation to sustainability matters, in particular climate change risk
- At the AGM in March 2023, all resolutions were approved by shareholders
- A total dividend for the year of 37.4 pence per share is proposed, and a further share buy-back programme of up to £100.0 million was authorised in the year

Further information on how the Group seeks to engage with and consider the views of all shareholders is given below. The Group's approach to capital and distributions is set out in Section A4.3. Discussions with investors on remuneration matters are discussed in the Remuneration Report (Section B7).

Customers

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

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

How we engage and / or monitor

- Regular customer satisfaction surveys on key product lines are reported to the Board
- Focussed analysis on key customer groups is undertaken, including quarterly surveys of SME and buy-to-let customers
- The Board took part in an insights day with the Mortgage Lending business, which included visiting the team and taking part in a question and answer session with a panel of brokers
- The Board receives Customer Insight updates bi-annually
- The Board received periodic updates on the Group's progress towards implementing the new FCA Consumer Duty throughout the year
- Graeme Yorston, an independent non-executive director has been designated as the Board's Consumer Duty Champion since October 2022
- Customer metrics are a key element of the Performance Share Plan ('PSP')

Outcome

- Rollout of the 'Think Customer!' initiative to all employees
- Greater understanding of customers and their priorities is used to refine product offerings, documentation and processes
- All employees received training on how to identify and support customers in vulnerable circumstances, with customer-facing employees receiving additional in-depth training
- Complaint levels remain low by industry standards

Digitalisation

Sustainability

Diversification

Growth

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

Employees

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

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

Sustainability

How we engage and / or monitor

- Regular group-wide anonymous employee engagement surveys are conducted, most recently in the current year
- The Chief People Officer updates the Board and ExCo on employee feedback from surveys and from the People Forum, as well as other metrics
- The Chair and non-executive directors attend the Group's employee-led People Forum on a regular basis
- Designated ExCo members with responsibility for gender diversity and wider diversity regularly report progress on these matters
- The Group's EDI network is sponsored by a member of ExCo and, throughout the year, members of the Board and ExCo have attended employee listening circles
- The Nomination Committee receives six-monthly updates on succession planning and feedback from the EDI network from the Chief People Officer
- People metrics are a key element of the PSP

Outcome

- 88% of employees took part in the engagement survey, with the Group achieving an overall engagement score of 90%, its best result in eight years
- The Group is accredited as an Investor in People with Platinum IIP status
- Feedback from the People Forum and regular updates from the Chief People Officer enable the Board to support and understand employees and their engagement
- Tailored career development programmes embedded across the Group for apprentices through to high potential senior leaders
- The launch of the Paragon Moments Rewards app which allows employees to recognise the performance of colleagues who demonstrate one or more of the Group's values

Further information on the involvement of the Group's people and the impact of policies on them, can be found in Section A6.3

Regulators

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

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

How we engage and / or monitor

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

Capital management

Sustainability

Outcome

- All changes to the Board and Senior Management Functions are approved by the regulator, where required
- A Risk Adjustment Review Group has been established to identify instances of potential risk adjustment for MRTs and others on a more formal and structured basis

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

Society and community

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

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

How we engage and / or monitor

Sustainability

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

Outcome

- In the twelve months ended 30 September 2023 employees raised more than £45,000 for Newlife, a disabled children's charity
- The Group's Charity Committee is sponsored by a member of ExCo
- Employees were supported to take part in a range of volunteering activities
- 469 employee volunteering days were used to support specific initiatives in local communities

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

Environment and climate change

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

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

How we engage and / or monitor

Sustainability

- The Group has an executive level Sustainability Committee which addresses all climate-related issues on a cross-group basis
- Climate change is designated as a principal risk within the Group's risk management framework
- The Board receives updates on the potential risks and strategic impacts of climate change
- The Group is a member of Bankers for Net Zero and the Mission Zero Coalition
- Strategic priorities have been mapped against the United Nations Sustainable Development Goals
- The CFO has been designated as the responsible director for climate change matters
- The Group's ICAAP includes a climate change scenario analysis module
- The Group complies with all applicable laws and regulations relating to the environment

Outcome

- The Group offers a range of green mortgages which encourage landlords to invest in energy-efficient properties
- Loans to finance battery electric vehicles, including light commercial vehicles, are offered by the Group's motor finance business
- The Board has objectives in place against current energy performance to further reduce consumption
- Operational emissions for the year have been offset with purchased carbon credits certified under the Gold Standard or VCS programmes
- Environmental / climate change targets are considered as part of the Remuneration Policy
- The Group publishes an annual sustainability report (the Responsible Business Report) and has a dedicated sustainability section on its website
- All employees undertook training focussed on sustainability issues during the financial year

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

Business partners and suppliers

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

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

How we engage and / or monitor

Digitalisation

Sustainability

- Key business partner relationships, including intermediaries and suppliers, are identified, actively monitored and reported to ExCo and the Board
- The Board met with a selection of mortgage intermediaries as part of its Mortgage Lending insight day
- Regular feedback surveys are conducted amongst intermediaries with the results fed back to ExCo and Board
- The Group has a Supplier Code of Conduct which sets out its overall approach to supplier engagement and its expectations of its suppliers
- A comprehensive questionnaire covering broad sustainability topics was issued to critical suppliers

Outcome

- Intermediary feedback key to updating and streamlining operational systems
- Our suppliers understand the minimum standards we expect from them and our commitments and expectations around bribery and corruption, data protection and modern slavery
- Ongoing engagement with our key suppliers ensuring operational resilience and reduced risk
- Results of the Group's 2022 supplier survey were used to inform the ongoing development of its supplier management and procurement processes
- The Group is a signatory to the UK's Prompt Payment Code, and ensuring that suppliers are paid promptly is a priority

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

Shareholder relations

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

The 2024 AGM will take place at 9am on 6 March 2024 at the offices of Computershare, Moor House, 3rd Floor, 120 London Wall, London EC2Y 5ET.

The CEO and CFO have a full programme of meetings with institutional investors and during the year ended 30 September 2023, meetings were held with investors from the UK, Europe and North America.

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.

The Chair of the Board and the Chair of the Remuneration Committee (who, until August 2023 was also the Senior Independent Director), held meetings with shareholder advisory groups covering governance and remuneration matters as set out in the Remuneration Report in B7. Following the publication of the 2022 Annual Report and Accounts and the AGM notice, the Company invited its largest stakeholders, who collectively represent over 89% of the Company's total voting rights, to share their views, and many of these shareholders, representing over 56% of the Company's total voting rights, responded.

The Board believes that engagement with shareholders is an important part of both the governance framework of the Group and the stewardship aims of investors, and investors' comments from all these interactions are communicated to the Board who take those views into account when determining strategy.

The Senior Independent Director is also made aware of views expressed by shareholders to other members of the Board, via the Company's brokers or through the Investor Relations team. Alison Morris became Senior Independent Director during the year, succeeding Hugo Tudor from August 2023. Meetings between the Senior Independent Director and shareholders can be arranged via the Company Secretary.

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

B4.4 Board evaluation

Board evaluation

The effectiveness of the Board, individual directors and the Board's main committees is reviewed annually. Given the change of Board Chair in September 2022, a decision was made to defer the externally facilitated evaluation until the current financial year, given that it would be more meaningful for this to take place once the new Chair had been in the role for a reasonable period of time.

This review was completed in the year and is described below.

2023 external board evaluation

In line with recognised best practice, the Group undertakes board reviews on an annual basis to increase board effectiveness and to identify areas for improvement.

A number of providers were considered to undertake this year's review. Following consideration of prospective providers' proposals by the Chair, Company Secretary and a number of board members, Lintstock Ltd ('Lintstock') was engaged to conduct an external review of the performance of the Board and its committees. Lintstock is an advisory firm that specialises in board reviews and has no other connection with the Company or individual directors.

The review was conducted in line with the Code of Good Practice for Board Reviewers published by the Chartered Governance Institute UK & Ireland ('CGI'), and Lintstock was provided with the opportunity to comment on the description of the process followed and the findings contained in this annual report, and agreed any opinions attributed to them.

In drafting this disclosure on the Board evaluation, the CGI guidance notes 'Principles of Good Practice for listed companies using external board reviewers' and 'Reporting on board performance reviews: Guidance for listed companies', published in July 2023, were consulted. The Board evaluation process was initiated before the guidance was published. However, in the main, the principles were followed.

Evaluation methodology

The steps involved in the evaluation process and their timings are set out below.

Phase and timing	**Activities**
Scoping	
February 2023	The scope and objectives of the review were agreed following a briefing meeting between the Chair of the Board, the Company Secretary and Lintstock.
Tailoring	
March to April 2023	Lintstock collaborated with the Chair and the Company Secretary to design bespoke surveys tailored to the business needs of the Group and to ensure that key action points from the internal 2021 board review had been addressed. As well as covering core aspects of governance such as information, board and committee composition, and dynamics, the review considered people, strategy and risk areas relevant to the Group's performance. The review had a particular focus on the following areas: • the Chair transition during 2022 • the Board's understanding of digital and data opportunities • the quality of executive succession planning
Observation	
May 2023	Lintstock representatives observed the May meetings of the Board and the Audit Committee and reviewed the accompanying meeting packs. In addition Lintstock also observed: the Board's site visit to, and interaction with, the Mortgage Lending division; an insight presentation attended by the Board; and a board question and answer session with a panel of the Group's mortgage intermediaries.
Completion of surveys	
July 2023	Board members and other key stakeholders completed surveys assessing the performance of the Board and each of its committees, as well as the performance of the Chair of the Board. Each director also completed a self-assessment questionnaire addressing their own performance.
Interviews	
July 2023	In-depth interviews with board members and key stakeholders were conducted by two Lintstock partners. The findings from the survey stage enabled Lintstock to focus discussions on the key priorities for each director.
Analysis and delivery of reports	
August 2023	Lintstock analysed the findings from the surveys and interviews and delivered focused reports documenting the findings, including a number of recommendations to increase effectiveness.
Board discussion and presentation	
September 2023	Lintstock's findings were shared with the Chair of the Board and then discussed by the Board at its September meeting. Actions were agreed for implementation and monitoring.

Key findings

Lintstock found the Board to be highly engaged. Effective communication has been established between the new Chair and the CEO, and strong interaction is apparent between the non-executive directors and management. Board meetings were seen to be well-run, and the review confirmed that non-executive directors benefit from a strong network of support and training.

The review identified a number of focus areas, including:

- Providing opportunities for informal strategic discussion throughout the year, to supplement existing board strategy sessions
- Continuing to strengthen the Board's familiarity with relevant technological developments
- Further enhancing the Group's focus on customers, including the user experience and various target customer groups across the business
- Continuing to monitor executive succession plans closely

As part of the review, Lintstock delivered a board discussion document informed by the Lintstock Governance Index, which comprises around 60 core board performance metrics from over 200 board reviews that Lintstock has recently facilitated, specifically in financial services. The Index provides a robust baseline for the evaluation, helping the directors to understand how the Company's Board compares with those of other similar organisations, putting the findings into context.

An update on progress on addressing these key findings will be given in the governance section of next year's annual report and accounts.

Other evaluation activities

In addition to the externally facilitated evaluation, the Nomination Committee also evaluated:

- Whether each non-executive director had sufficient time to devote to their board duties
- The independence of non-executive directors
- Whether each director should be put forward for election / re-election at the 2024 AGM
- The structure, size and composition (skills, experience, knowledge and diversity) of the Board and its Committees

Where appropriate, recommendations were then put to the Board for deliberation. More details of these considerations are given in the Report of the Nomination Committee (section B5).

A review of the performance of the executive directors, including the observations from the external board evaluation, took place at the Remuneration Committee meeting in September 2023 that considered remuneration packages for 2023/24 and variable remuneration outcomes for 2022/23. Further information on this process is given in the Directors Remuneration Report (section B7).

At the 2024 AGM, the Chair will confirm to shareholders, when proposing the election or 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.

B4.5 Board training and development

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 Chief People Officer 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 Robert East, who was appointed Chair on 1 September 2022, has had meetings with senior employees from areas across the organisation to brief him on the work of their respective areas and the particular issues within those areas most relevant to his position as Chair of the Board.

Zoe Howorth, who was appointed to the Board on 1 June 2023, commenced her induction programme and met with stakeholders across the business. Further, Tanvi Davda, who was appointed on 1 September 2022, continued her induction. During the coming financial year Tanvi will receive further induction training as she takes up her new role as Remuneration Committee Chair, building on her experience as a Remuneration Committee member.

Development

Following Board approval in October 2022, a skills matrix was completed by each board member, the aim of which was to identify the key areas for ongoing board development and to assess the necessary skills and experience when considering future board succession planning. Further detail on training undertaken by the Board during the year can be found in section B3.3.

A number of topics have been agreed for board development over the coming year 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 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, customer insight, risk, management, governance and professional development. In addition, all directors completed a variety of regular training modules that are mandatory for group employees.

Further business insight and awareness sessions and deep dives on particular areas are held regularly to provide non-executive directors with the appropriate depth of knowledge to contribute effectively at board meetings on key topics. Specific detailed training sessions were provided in the year on the following subjects.

Topic	Board meeting
Hedge accounting, provided by members of the finance function	Jan 2023
Interest Rate Risk in the Banking Book, provided by members of the treasury team	Mar 2023
ICAAP elements, provided by members of the Balance Sheet Risk, Capital and Credit Risk teams	Mar 2023
Legal and regulatory, which covered topics such as UK MAR and directors' duties	Jul 2023
Cyber, delivered by a combination of in-house experts and an external cyber security solutions provider	Jul 2023
Sustainability / Climate Change, provided by the Chair of the Sustainability Committee and in-house experts	Jul 2023
2023 ILAAP, delivered by members of the treasury team	Jul 2023

These topics were drawn from the fields of risk, financial crime, accounting, cyber security and sustainability.

B4.6 Whistleblowing

The Group has an established policy whereby employees can make disclosures regarding potential wrongdoing within the Group on a confidential basis, in accordance with the Public Interest Disclosure Act 1998 ('PIDA'). The policy also makes provision to ensure that no employee making such a disclosure suffers any detriment by doing so. A whistleblowing advisory 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.

The Chair of the Audit Committee, an independent non-executive director, is the Group's designated Whistleblowing Champion. She is responsible for overseeing the integrity, independence and effectiveness of the Whistleblowing policy.

Management oversight of the process is provided by the Whistleblowing Group, which ensures that disclosures are properly assessed, whistleblowers' identities are protected, and all cases are handled in an appropriate, fair and consistent manner. The Whistleblowing Group comprises the Chief People Officer, CRO, Internal Audit Director, Conduct and Compliance Director and the Whistleblowing Champion.

If an employee is dissatisfied with the investigation, or any action taken as a result, they may request a confidential meeting with any member of the Whistleblowing Group to discuss the matter further.

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. There were also internal publicity campaigns promoting the whistleblowing procedures.

During the year ended 30 September 2023, there was one instance of whistleblowing which resulted in a requirement for full consideration and investigation by the Whistleblowing Group (2022: two). This case was fully investigated and concluded, with no further action required.

Procedures whereby customers who are dissatisfied with the Group's response to any complaint about their treatment may seek recourse to an external party are discussed in section A6.2.

B5. Nomination Committee

The Board supports the drive from The Parker Review to encourage increased ethnic diversity for the Group's senior leadership and an appropriate target for the Group has been considered by the Committee during the year.

Robert East, Chair of the Board and the Nomination Committee

B5.1 Introduction by the Chair

Dear Shareholder

The Nomination Committee is the forum used by the Board to consider certain governance matters. These are vital issues for the Board and the Group, and the Committee has continued to fulfil its duties with a full programme of activity. As Chair of the Board I serve concurrently as Chair of the Nomination Committee.

During the year the Committee has overseen the appointment of an additional non-executive director. Our primary aim in this process was to ensure that the person appointed had the requisite skills and knowledge for their role, benchmarked against the board skills matrix, and brought an increased diversity of experience to complement the existing skillset of the Board.

Zoe Howorth was appointed as a non-executive director from June 2023. She has outstanding experience as a customer-driven, brand-led and commercial executive in a PLC environment with strong strategy and ESG capabilities. Zoe has undertaken several non-executive director appointments since retiring from her executive career in 2014.

In addition, the Committee has overseen the appointment of a new Senior Independent Director, Alison Morris, in place of Hugo Tudor, who reached his nine-year tenure on the Board in November 2023, and also initiated a process which will result in Hugo's replacement as Chair of the Remuneration Committee by Tanvi Davda on 7 December 2023, which will coincide with the completion of the Committee's work on the 2023 remuneration cycle.

The remit of the Committee also covers people-related sustainability issues and during the year the Committee has considered the application of the new FCA Listing Rule requirements in relation to gender and ethnic diversity at board and executive management level, which apply to the Group from its current financial year. This has been a key priority and area of focus to ensure these requirements were met by 30 September 2023, and I am pleased to confirm that this process has been successfully completed.

The Board supports the drive from The Parker Review to encourage increased ethnic diversity for the Group's senior leadership and an appropriate target for the Group has been considered by the Committee during the year. As required by The Parker Review, the Group's voluntary target to increase the number of ethnic minority appointments across senior leadership by 31 December 2027 will be published in the Annual Report and Accounts for the year ending 30 September 2024.

The Committee also noted the PRA's publication of a consultation paper on Diversity and Inclusion in September 2023, and will be monitoring the progress of this project with interest in the coming year.

The importance of employee voice has underpinned the transition to hybrid working over recent years, and continues to do so, as growing experience of different ways of working refines our approach, to provide flexibility and balance for employees whilst supporting the Group's customers in the best way possible. I particularly value the perspective provided by my interactions with the Group's employee-led People Forum and other employees in the year.

Overall, I believe the Committee has enjoyed a year of positive achievement, helping to set the course of the Group's future governance, and fully satisfied its mandate from the Board.

Robert East

Chair of the Board and the Nomination Committee

6 December 2023

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 in senior management, including that of Company Secretary, and for overseeing the development of a diverse pipeline for succession to such roles
- Overseeing the Group's initiatives on the promotion of diversity in the workforce, with a particular focus on its participation in external programmes, such as the Women in Finance Charter and the Parker Review, and reporting including that on the gender pay gap
- Monitoring workforce engagement and seeking employee feedback on behalf of the Board

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

B5.3 Matters considered by the Committee during the year

Board appointments

During the year the Committee recommended the appointment of an additional non-executive director, Zoe Howorth, who joined the Board at the beginning of June 2023. Zoe's executive experience included over 16 years with the Coca-Cola Company across a variety of roles, culminating in her role as UK Marketing Director. Zoe is a non-executive director, chair of the ESG Committee and member of the Remuneration Committee at AG Barr PLC, a FTSE-250 consumer goods business. In 2021, Zoe joined the Board of International Schools Partnership Limited, a global education business, where she has board responsibility for ESG and brand, and she is also a non-executive board member of the Water Babies Group Limited.

Zoe's breadth of knowledge, which includes branding, digital and understanding of many aspects of the sustainability agenda, together with her strong focus on the customer experience, will enhance the diversity of perspective on the Board. This appointment complements the Board's existing skillset, and broadly maintains the balance of gender diversity. Zoe was also appointed to the Risk and Compliance and Remuneration Committees on her appointment.

The search process for the additional non-executive director, was led by the Chair, Robert East. The process was supported by Anne Barnett, Chief People Officer, and undertaken in conjunction with Jamie Risso-Gill from Per Ardua Associates Limited. Per Ardua Associates Limited do not have any connection with the Group or any of its directors.

In initiating this appointment, the Committee also considered the consequent increase in the size of the Board from nine to ten members. It was determined that this expansion of the Board was appropriate, in view of the increasing size of the Group and of the growing regulatory expectations which accompany this, as well as a desire to broaden the range of experience on the Board.

In November 2023, Hugo Tudor reached his nine-year tenure on the Board. During the year the Committee oversaw the process to appoint his successors as Senior Independent Director and Chair of the Remuneration Committee. Alison Morris was appointed as Senior Independent Director from 14 August 2023, recognising her experience as a Board member to date and as Chair of the Audit Committee. In addition, the Committee has overseen the process which resulted in the announcement that Tanvi Davda will succeed Hugo as Chair of the Remuneration Committee with effect from 7 December 2023, following the completion of the committee's work on the 2022/23 remuneration cycle.

In accordance with its annual process, the Committee considered the appropriateness of the re-appointment of the serving directors and recommended to the Board that resolutions for their re-appointment should be proposed at the forthcoming AGM. The Board agreed that Hugo Tudor's appointment as a director should be extended for an additional one-year period given the value and knowledge he contributes to the Board and to ensure an effective transition of duties. The Board agreed that Hugo would be deemed to be a non-independent non-executive director following the conclusion of the 2024 AGM.

Succession planning

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

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

The Group's preference, where possible, is that internal candidates are developed and supported to undertake more senior roles, as this assists in the ongoing maintenance of its strong culture and values. It also acknowledges the benefits which can arise from the hire of capable 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 the board skills matrix at its September 2023 meeting following the outputs from the Group's strategy event in July 2023 and feedback from the external board evaluation described in Section B4.4. This was reviewed and subsequently approved by the Board in October 2023.

The matrix reflects the Group's strategic aim of becoming a technology-enabled specialist bank, and the skills considered include matters such as:

Economic environment	Lending markets	Funding
Sound knowledge of the UK banking environment and macro-economic drivers that influence and impact the Group's purpose and strategic objectives	The Group's key lending markets	Understanding capital requirements and liquidity models
Digital technology	**Customers**	**Sustainability**
Considering the application and emergence of digital technology trends and developments in a financial services environment	Customer insight, marketing and communications in the specialist lending sector	Sustainability matters including government and regulatory policy and guidance, climate change and sustainability goals, social responsibility and governance standards.

This matrix is reviewed annually by the Committee and forms the basis for continuing professional development and future succession plan requirements. The application of the skills matrix in developing board training in the year is described in section B4.5.

Diversity

The Group recognises the importance of diversity, including gender and ethnic diversity, at all levels of the organisation. The Board is pleased to have maintained a consistent female representation of 38.6% at board and senior management level (2022: 38.1%), exceeding the original Hampton-Alexander Review targets and the Group is aligned to the ongoing objectives of the FTSE Women Leaders Review. The Group is committed to increasing the number of women in senior positions, and the Committee is monitoring its progress towards the new Women in Finance target of 40% female representation at board and senior management level by 30 September 2025.

In September 2023 the PRA published a consultation paper (CP 18/23) on 'Diversity and inclusion in PRA-regulated Firms', proposing new rules and codified expectations aimed at improving diversity in the financial services sector. This consultation builds on a 2021 discussion paper issued by the PRA, FCA and the Bank of England, and the Committee has been monitoring regulatory progress on this agenda for some time. In the coming year the Committee will supervise, with interest, the Group's analysis of and response to, the consultation.

The Committee has noted with interest the part being played by the Group's people in addressing socio-economic diversity at senior levels within the financial services industry, with the Group being a Founder Partner of the Progress Together initiative. It was gratifying to see this recognised in the year when Richard Rowntree – Managing Director Mortgages, and a member of the Progress Together board, was awarded the freedom of the City of London for his work in this field.

Board and executive management diversity

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 Equality, Diversity and Inclusion ('EDI') policy, which applies to the Board, its committees, the executive committees and senior management as well as the wider workforce, is set out below, under 'wider diversity in the Group'. It addresses such matters as age, gender, ethnicity, sexual orientation, disability and educational, professional or socio-economic background.

The Group's adherence to the FCA Listing Rule requirement and its voluntary targets to meet the expectation of the Parker Review and Women in Finance Charter demonstrate its commitment to achieving a diverse workforce at all levels.

The data on diversity amongst the Board and senior management at 30 September 2023 required by Listing Rule LR 9.8.6R(10) is set out below.

Gender

	Number of board members	Percentage of the board	Number of senior positions on the board	Number in executive management	Percentage of executive management
Men	6	60%	3	9	69%
Women	4	40%	1	4	31%
Not specified / prefer not to say	-	-	-	-	-
Total	**10**	**100%**	**4**	**13**	**100%**

Ethnic background

	Number of board members	Percentage of the board	Number of senior positions on the board	Number in executive management	Percentage of executive management
White British or other White	9	90%	4	12	92%
Mixed / multiple ethnic groups	-	-	-	-	-
Asian / Asian British	1	10%	-	1	8%
Black / African / Caribbean / Black British	-	-	-	-	-
Other ethnic group including Arab	-	-	-	-	-
Not specified / prefer not to say	-	-	-	-	-
Total	**10**	**100%**	**4**	**13**	**100%**

For the purposes of the tables above the senior positions on the board are the Chair of the Board, the CEO, the CFO and the Senior Independent Director. Executive management is defined by the Listing Rules as including the executive committee members and the Company Secretary. This definition thus differs from those used for other purposes. The Group has interpreted this definition as including the Internal Audit Director, who attends the executive committees as an observer and reports directly to the Chair of the Audit Committee, a member of the Board.

Gender is based on legal gender recorded in the Company's payroll records. Ethnicity is based on each individual's response to a diversity questionnaire where respondents were asked to identify the most appropriate classification from a list based on the categories used by the UK Office for National Statistics.

At 30 September 2023 the Company therefore met the following targets specified by the Listing Rules of the FCA.

- At least 40% of the directors were women
- At least one of the senior positions on the Board of Directors was held by a woman
- At least one individual on the Board of Directors was from an ethnic minority background

No changes in Board composition have occurred between the year end and the date of approval of this Annual Report and Accounts which would affect the Company's ability to meet these targets. The Committee expects that the Company will be able to continue to achieve these levels of representation in the longer term.

Wider diversity within the Group

The Group believes the achievement of a diverse workforce at all levels delivers the best culture, behaviours, customer outcomes, profitability and productivity and therefore supports its success as a business.

The Group is committed to eliminating discrimination and promoting equality, diversity and inclusion amongst all its employees through its policies, procedures, and practices and through its professional dealings with each other, customers and third parties.

The objective of the EDI policy is to outline the Group's approach and its expectations of employees and, in particular, line managers to ensure that its approach is understood and appropriately managed.

The EDI policy is implemented through the development and communication of its supporting people processes and procedures, making this policy available to all colleagues and engaging with and supporting people to display the policy's intent through the provision of regular training.

The Committee is pleased that 73.1% of employees provided diversity data for analysis at the beginning of the year and this increased to 76.8% by 30 September 2023. This supports the Group's culture and commitment to EDI matters and has helped shape EDI activities, including focused communication campaigns to raise awareness and celebrate differences, and to provide more development opportunities for under-represented groups. The Committee has monitored these activities with interest and is pleased with the Group's progress in this area.

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

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

The Group's diversity policies are described in Section A6.3. Information on the composition of the workforce, including the gender and ethnic balance of those in senior management and their direct reports is given in section A6.3. 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.

Additionally, non-executive directors have attended People Forum meetings during the year to discuss topics including executive pay and reward; pay and reward for the wider workforce; hybrid working practices and the Group's communication channels. These meetings provide employees with an opportunity to ask questions of board members and provide direct feedback. These meetings form a regular feature of the board calendar.

B6. Audit Committee

“Accounting standards require approaches to both impairment provisioning and income recognition on loan assets which rely on assumptions about future behaviours. The Committee has given considerable focus to both areas, engaging with both financial and operational management, and with KPMG, the external auditor, to ensure that all judgements are rigorously challenged.

Alison Morris, Chair of the Audit Committee

B6.1 Statement by the Chair of the Audit Committee

Dear Shareholder

The changing economic landscape of the UK during this year has continued to present accounting challenges, with the Audit Committee fully engaged in ensuring that the Group's response provides the best possible information for shareholders and other users of these accounts. The lack of recent similar experience has meant that, once again, my colleagues and I have had a demanding, but interesting year.

Accounting standards require approaches to both impairment provisioning and income recognition on loan assets which rely on assumptions about future behaviours. The Committee has given considerable focus to both areas, engaging with both financial and operational management, and with KPMG, the external auditor, to ensure that all judgements are rigorously challenged.

The rate of change of interest rates, and the levels they had reached by year end, have had a clear impact on the behaviour of customers with maturing accounts, and on the reversionary interest rates charged after the point of maturity. As the EIR method, which aims to spread income over the life of a loan, requires these factors to be projected for current loans, the level of judgement required is substantial, and the lack of substantial recent relevant experience makes this even more complex. The Committee has had to carefully consider and weigh a great deal of evidence, with members applying their experience in order to conclude on the appropriateness of the final position reflected in these accounts.

For impairment provisions, while some deterioration in loan performance has been seen over the period, this has been less severe, so far, than many predictions. The Committee has had to give much thought in the year to the extent to which this performance merely represents a delayed impact, and to the likely effects of an economic outlook which appears to be more negative for a longer period than some of the potential scenarios contemplated at the beginning of the year. Modelled approaches provide a useful framework for these considerations, and we were pleased to see upgrades in the Group's impairment models in the year, allowing us to reduce the level of judgemental adjustments required. However, the overriding requirement for the final position to be truly representative of the Group's exposures and credit risks was at the forefront of the Committee's mind in evaluating and challenging the judgements made.

The Committee continues to appreciate the value which the effective operation of the Internal Audit function brings to the Group, and the confidence it provides over the systems of internal control. I consider that the importance of Internal Audit to the effective governance of an organisation's control framework cannot be overstated, and I was gratified to receive the results of this year's externally conducted review of the Group's Internal Audit arrangements, which found that they were operating in an appropriate manner, with very limited suggestions for improvement. I would like to congratulate Sarah Mayne and her team on this excellent result.

The year has also been one where the UK corporate governance framework has been in a process of change, with the Committee monitoring proposals from the FRC and the UK Government which would affect its operations and the Group's reporting. The Committee reviewed the new FRC Minimum Standard for Audit Committees, issued in the year, finding that it largely reflected the Committee's existing practice, and has ensured any changes to its terms of reference needed to clarify conformity with the Minimum Standard were made in the year.

As the year closes, the likely direction of the reforms remains unclear, and, after five years of the process, I would be pleased if the coming year brought a degree of certainty, and final proposals which are proportionate and sensible, and have both clear objectives and potentially significant benefits for the UK's attractiveness as a place to do business.

These accounts are the eighth to be reported on by KPMG as external auditor, and, as I indicated last year, the Committee intends to conduct a tender process in the coming financial year with respect to its external audit arrangements for the year ending 30 September 2026 and thereafter. We intend to conduct the process in line with the best practice recommendations of the FRC, but I would be grateful to receive input from interested shareholders on the process.

Planning activities for the tender have already commenced, including preliminary contacts with a range of potential candidates and we expect to be able to report on the results of this process in next year's Audit Committee report.

For the coming year ending 30 September 2024, the main priorities for the Committee will include:

- Continuing to monitor the ongoing credit risk environment and its impact on impairments, both in terms of forward-looking indicators and in terms of the support actual results give to the Group's modelling approaches
- Further monitoring of EIR related assumptions as more evidence emerges of actual customer behaviour in the current higher interest rate environment
- Ensuring that the Group's control processes and internal audit capabilities continue to evolve alongside developments in the business and emerging best practice
- Progressing the external audit tender process, with the intention of being able to report a decision in the Committee's next annual report
- Analysing the impacts of new accounting, reporting and governance initiatives on the Group, particularly the proposed new Code and the UK Government's corporate governance and auditing agenda, and ensuring the Group is properly positioned to respond to them

Overall, the year has been a challenging and busy one for the Audit Committee and I would like to thank my colleagues for the enthusiasm and diligence with which they have applied themselves to the complex issues involved. I would also like to thank Hugo Tudor for his nine years' service on the Committee, as he steps down from the Committee next year. His fund management experience has helped bring a different perspective to the Committee's deliberations, which has been particularly useful. My thanks also go to the people across the business whose work has informed the Committee's discussions in the year, and contributed to the compilation of this Annual Report and Accounts.

The Committee and I are pleased with the way in which the Annual Report reflects the Group's year, and we commend it to shareholders for approval at the AGM in March 2024, along with the resolutions concerning the reappointment of KPMG as auditors and their remuneration.

Alison Morris

Chair of the Audit Committee

6 December 2023

B6.2 Operations of the Committee

The Audit Committee currently comprises four independent non-executive directors of the Company. All members served throughout the year.

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 2023 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 operations of the Committee are conducted in accordance with the FRC 'Audit Committees and the External Audit: Minimum Standard' (the 'Minimum Standard').

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

The Committee considers that, as a whole, it possesses the competence relevant to the sector in which the Group operates which the Code requires. Alison Morris has competence in accounting and auditing, having been a senior partner in a major accountancy firm, specialising in audit and assurance for financial services entities, while other committee members have substantial experience in various aspects of the financial services industry obtained over the course of their careers. Details of Committee members' relevant experience are set out in section B3.1.

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

Four times a year the Committee meets separately with representatives of the external auditor and with the Internal Audit Director without management present.

During the year ended 30 September 2023, the Committee met five times. Its principal activities were:

- 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
- 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
- Consideration of the results of the work carried out by the external auditor on the Group's annual and half-yearly financial reporting including their views on significant judgements, disclosures and the control environment
- 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 recommendation of revised terms to the Board for approval
- Consideration of the potential impact of the UK Government's corporate governance reform process on the Group and the Committee itself
- Ensuring that the provisions of the FRC Minimum Standard are reflected in the Committee's operational practice and terms of reference
- Planning for the audit tender process due to take place during the financial year ending 30 September 2024
- Consideration of the Group's readiness to address other forthcoming accounting and reporting changes which will affect it
- Consideration of the results of the External Quality Assessment of the Internal Audit function carried out in the year
- Approval of the Group's Internal Audit Plan and monitoring progress against it
- Assessing the adequacy of the resources available to the Internal Audit function
- Receiving and considering reports on internal audit reviews conducted across the Group

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

Details of the Committee members' attendance at meetings 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 management are appropriate. In evaluating the Group's financial statements for the year ended 30 September 2023 the Committee particularly considered:

- The levels of impairment provision against loan assets under IFRS 9 and particularly the interlinked uncertainties resulting from increased living costs, a rising interest rate environment, the impact on the economy of the conflict in Ukraine and the long-term damage to businesses of the Covid pandemic
- The calculation of interest income under the Effective Interest Rate ('EIR') method for both internally originated and purchased loan assets
- The requirement for any impairment provision against the purchased goodwill carried in the Group's balance sheet, based on the most recent forecasts for the businesses concerned
- The valuation of the surplus in the Group's defined benefit pension scheme
- The viability statement which the Group is required to make under the Code
- The Group's capital and funding position and the Group forecasts for future periods and their impact on the going concern assessment for the Group

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

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

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

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

Matter	Particular areas of focus
Loan impairment	IFRS 9 requires that companies provide for future ECLs on any financial asset held on the balance sheet on the amortised cost basis. Their forward-looking nature means that such provisions are heavily dependent on the use of judgement and estimation techniques to evaluate the likelihood of loss on accounts and the potential amount of that loss. The current economic environment, with high levels of UK inflation, rising interest rates, and a developing cost of living crisis, makes the consideration of ECL particularly complex. The Group's ECL models are based on observed data from the recent low rate, low inflation environment and therefore may not be as reliable outside that economic framework. These factors increase the potential requirement for management judgement in arriving at final ECL estimates and hence the level of scrutiny required by the Committee. In order to satisfy itself that the process applied by the Group resulted in an appropriate level of provisioning in accordance with IFRS 9, the Committee considered particularly: • The methods used to estimate probabilities of loss and potential losses, both mechanical and judgemental, including the new model for SME lending introduced in the year • The assumptions used as inputs in these calculations • The economic projections used in deriving ECLs and the weightings applied to each scenario • The appropriateness of the calculated provisions in light of the economy more generally • The appropriateness of judgemental adjustments made to compensate for factors not fully addressed in the modelling To substantiate these decisions, the Committee considered actual results in the year compared to those predicted by the impairment methodology and the continuing relevance of historical information used in the process based on present economic conditions, lending and account administration practices. The Committee also considered other intelligence on the credit prospects of the Group's customers available through wider management information to ensure that the provisioning approach was consistent with all known data. A particular focus continued to be given to the Group's receiver of rent portfolios and the level to which their ultimate loss levels accorded with expectations. Further information on these estimates can be found in note 69a to the accounts. The impairment charge for the year and the movements in provision for impairment are shown in notes 20 to 25. *The Group's exposure to credit risk is discussed in note 63.*

Matter	Particular areas of focus
Interest income recognition	As required by IFRS 9, the Group recognises income from loan balances on an EIR basis, which is intended to produce a constant yield throughout the behavioural life of the loan, taking account of such matters as costs of procuration, and initially fixed or discounted interest rates. The calculation therefore rests on assumptions about the future behaviour of the Group's customers, particularly at the end of a fixed rate period. The Committee assessed the appropriateness of the assumptions made, considering performance of the portfolios against expectations and the impact of changes in product specifications. Redemption profiles used in the modelling of mortgage books were an area of focus, particularly with substantial tranches of five-year fixed rate products reaching maturity in the year. Given the higher interest rate environment, the Committee also reviewed the assumptions surrounding the interest rates which mortgage loans would revert to following initial fixed rate product periods and the impact of this rate environment on customer behaviour. *Further information on these estimates can be found in note 69b 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. In considering whether any impairment of goodwill had occurred, the Committee particularly considered the Group's forecasts for the future cash flows of the acquired businesses and their reasonableness in light of current trading performance, together with the Group's strategy for these operations. The derivation of the discount rate used was also an area of focus. *The potential impairment of goodwill is discussed in notes 69c and 31.*
Defined benefit pension obligations	The surplus 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 surplus, the basis of valuation and the assumptions underlying it can be found in note 60 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 levels of potential variability in the forecasting. *A fuller discussion of the directors' consideration of the viability statement is set out in Section A5.*
Going concern	The Board is required by the Code and the Listing Rules to make a going concern statement in the Annual Report. The Committee has been asked to express an opinion to the Board as to whether this statement could properly be made. The Committee considered the Group's detailed forecasts and the implicit cash and capital requirements. It also considered internal stress testing procedures, including the ICAAP and ILAAP outputs, prepared for regulatory purposes. The Committee discussed availability of funding, potential stress events and the impact of the economic environment, including the uncertainties created by increasing inflation and bank rates, 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 and in note 70 to the accounts.*

Matter	Particular areas of focus
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 evaluations prepared by the Risk and Internal Audit functions, together with the findings of internal audit reports in the year and its own engagement with the management information of the Group and the executive directors. *The Board statements on internal control and risk management are set out in sections B8 and B9.*
Fair, balanced and understandable	The Board is required by the Code to state whether, in its view, the Annual Report is fair, balanced and understandable. The Committee has been asked to express an opinion to the Board as to whether this statement could properly be made. The Committee considered the draft Annual Report for the financial year, as a whole, satisfying itself that the process for the preparation and review of its various sections was appropriate. The Committee especially focussed on areas where disclosure requirements had changed or where new activities or considerations were to be reported on. For all significant judgement areas the Committee considered whether the disclosures made were consistent with its understanding of those matters and provided sufficient and appropriate information to a user of the accounts. 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 these areas and therefore resolved to commend the Annual Report to the Board for approval, and to advise the Board that it could 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 2023 to the Board for approval.

The Committee's consideration of the financial statements for the year ended 30 September 2022, which took place in the year under review, is discussed in the Audit Committee report for that year.

The PRA Rulebook 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 annual and half-yearly Pillar III reports, considering whether they included all material matters required by the PRA Rulebook and whether they 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 was appointed as auditor, following a competitive tender process, with effect from the year ended 30 September 2016 at the AGM in February 2016. The financial year ended 30 September 2023 is the eighth reported on by KPMG. Michael McGarry took over as engagement partner for the current year in place of Simon Ryder, who has retired from KPMG. The year ended 30 September 2023 is therefore the first for which Michael has been engagement partner. It is the policy of both the Group and the external auditor that no engagement partner should serve for more than five years.

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

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

During the year the Committee considered the planning for the process and approved a structure and outline timetable, with the tender expected to take place over the second half of the 2024 financial year. This has taken account of the FRC guidance on audit tenders and the expectations set out in the Minimum Standard, and included consideration of how second-tier firms can be included in the process. Full details of the tender process and its conclusion will be provided in the Audit Committee report in next year's Annual Report and Accounts.

Other than the legal requirements of the Order and the general constraints imposed by the current structure of the UK audit market, including independence requirements, 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 2023 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 external auditor was also asked to provide feedback on the degree to which their audit plan had been efficiently and effectively carried out
- 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 auditor

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 2022 audit, undertaken at the time of approval of the Group's 2022 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 published by the external auditor, and the FRC's most recent AQR audit inspection review on KPMG, published in July 2023.

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 2024 should be proposed at the forthcoming AGM.

Independence policy

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

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

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

Fees paid to the external auditor

Fees paid to the external auditor are shown in note 10 to the accounts. The 'other services' provided by KPMG include only services required to be provided by external auditors by legislation or regulation, including the review of half-yearly financial information and profit verification for regulatory purposes.

Audit fees of Group entities for the year, including fees for the review of the half-year report, have increased by 13.5% to £2,385,000 (2022: £2,102,000). This was principally a result of general inflation in professional services fees, particularly for more specialist resource.

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

Non-audit fees paid to the auditor for the year ended 30 September 2023 should be no more than 70% of the average of the audit fees for 2020, 2021 and 2022. As this average was £1,689,000, the non-audit fee cap for the year was £1,182,000. Fees paid to KPMG, the Group's external auditor, for non-audit services, as defined by the Regulation, during the year were £192,000 (2022: £213,000), well within the cap. All these fees were for services related to the Group's audit, as described above.

The Group actively considers other providers for the type of non-audit services typically provided by accounting firms. It maintains on-going relationships relating to tax, remuneration and regulatory advice with firms other than the external auditor's firm and considers discrete projects on a case-by-case basis. The Group has engaged with a number of firms, including some outside the 'big four' largest audit firms, in considering appointments for assignments during the year, assessing each firm's appropriateness for the particular assignment before an appointment was made. Fees paid to audit firms (excluding VAT), excluding the Group audit and related fees can be analysed as shown below:

	2023	2022
	£000	£000
Auditors – KPMG	**-**	38
Other big four firms	**1,148**	2,677
Other firms	**-**	-
	1,148	2,715

The Group maintains relationships with all the major accounting firms and considers a variety of providers for these types of assignment. There were engagements in place with non-big four firms at the year end.

B6.5 Internal Audit

The Committee is responsible for considering and approving the remit of the Internal Audit function, approving the Internal Audit Plan ('IAP'), and ensuring the function 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 function's reports and evaluates the adequacy of the 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.

Objective

The purpose of Internal Audit is to provide independent assurance to the Group's Board, Audit Committee and Risk and Compliance Committee that the governance, risk management and internal control systems within the Group are adequate, effective and functioning properly, forming the third line of defence in the risk management model (section B8). The scope and responsibilities of Internal Audit are set out in the Internal Audit Charter, which is reviewed annually by the Committee, most recently in May 2023. A copy of the current Charter is available in the Governance section of the Group's website.

Internal Audit maintains a good working relationship with the external audit team, meeting regularly throughout the year, independently of other group management.

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

Operations

In September 2023, the Committee considered and approved the annual IAP for the year ending 30 September 2024, which is based on an assessment of the key risks faced by the Group. The IAP is produced on a six (month) plus six basis, to facilitate its revision during the year, based on the ongoing assessment of key risks or in response to the requirements of the Group. The IAP for the financial year ended 30 September 2023 was approved before the beginning of the year, with the plus six half-year review of the IAP completed by the Committee in March 2023, when a small number of changes were approved.

Progress in respect of the plan is monitored throughout the year with the Internal Audit Director providing an update to each meeting of the Committee. A private session is also held between the Internal Audit Director and the Committee without management present at least twice a year.

The Internal Audit Director met regularly throughout the year with the Chair of the Committee to discuss progress against plan, outstanding agreed actions, and departmental resourcing. Ahead of finalisation of the IAP for the year ending 30 September 2024, the Chair of the Committee met with the Internal Audit Director to discuss audit planning priorities, key business risks and to assess current resourcing.

All internal audit reports are circulated to the Board. During the year the Board has received reports covering themes including: prudential, model and credit risk management; the operation of lending and customer servicing areas; data and IT; and assurance over the management of the Group's change portfolio.

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. The Internal Audit Director also provides an update on key risk themes emerging from Internal Audit reviews to the Risk and Compliance Committee and is an attendee at all executive risk sub-committees (as described in section B8.2).

On an annual basis, Internal Audit reports to the Committee on its assessment of the effectiveness of the operation of risk management and control arrangements, including details of themes raised within internal audit reports. Review of this assessment is one of the means by which the Committee assesses and challenges related management judgements and conclusions as disclosed in this Annual Report and Accounts, as noted above.

The last such report, in November 2023, concluded that these arrangements were operating effectively (section B6.3). The Committee also considered and concluded upon the independence of the Internal Audit function at this time.

Resources

The Internal Audit Director provides the Committee with regular assessments of the skills required to conduct the IAP 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 appropriately skilled resources to complete the plan and to ensure the ongoing capabilities of Internal Audit remain strong to support future assurance. Alongside review and approval of the IAP, the Committee formally confirms that it is satisfied that these resources are appropriate.

During the year, several technical and specialist reviews have been co-sourced under agreements with third-party firms, 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.

Effectiveness

The Committee assesses the effectiveness of the internal audit function by reference to standards published by the Chartered Institute of Internal Auditors ('CIIA') on an annual basis. In May 2023, the Committee considered the output of an external quality assessment ('EQA'), undertaken by an independent specialist firm, which was commissioned by the Committee to benchmark internal audit activities against best practice and peers, and to ensure the Group's Internal Audit function was in conformance with the CIIA standards.

The review concluded that Internal Audit was operating effectively, meeting the assurance needs of the Committee and conforming with CIIA Standards in all material respects.

As a matter of policy, the Committee intends to commission an EQA at least every five years and, as such, an EQA review will next take place during the year ending 30 September 2028. In the intervening years the Committee will consider the outputs of internal effectiveness reviews undertaken on a self-assessment basis.

> **The alignment with shareholder interests for the executive directors remains a key consideration for the Committee. The Group's performance has been very strong for the year and this is reflected in the outturns for the executive directors.**
>
> **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 2023 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 (section B7.1) and the Annual Report on Remuneration (section B7.2). The policy summary tables extracted from the Remuneration Policy approved at the Annual General Meeting held on 1 March 2023 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 2022, a copy of which can be found at www.paragonbankinggroup.co.uk.

B7.1 Statement by the Chair of the Remuneration Committee

The information provided in this section is not subject to audit

Dear Shareholder

This financial year will mark the end of my tenure as Remuneration Committee Chair. I have been Chair since June 2018 during which time there have been two policy updates. Both policy updates sought to further align Paragon's remuneration structure with that of the wider banking industry and the most recent review included further simplification of the policy. I am very pleased to say that the latest policy vote in March 2023 achieved over 96% of votes cast in its favour.

I am stepping down as Chair in December 2023 having reached my nine years on the Board in November 2023. My thanks go to the Committee and Board for their support throughout my tenure. My successor, Tanvi Davda, has been a member of the Committee since September 2022 and brings strong finance and regulatory experience to the role. I wish her and the Committee well for the future.

Business performance

The Group's performance has been very strong for the year ended 30 September 2023 and this is reflected in the outturns for the executive directors as described below. These themes are expanded on further in this report as a whole and in the remainder of this letter.

Variable pay earned in the year

Both executive directors are being awarded an annual bonus of 97% of maximum opportunity. The balanced scorecard assessment shown later in this report records and expands on the excellent performance in all areas. When determining the annual bonus, the Committee noted the outstanding financial performance for the year which delivered record underlying operating profits, capital returns and earnings per share.

The PSP awards that are due to vest in December 2023 will vest at 96.41% of maximum. This also reflects strong performance over the period including TSR performance of over 75%, being above the upper quartile of the peer group. Underlying EPS was materially above the threshold for maximum vesting, being up 158.1% across the three years, with the growth translating to a 159.7% increase in the Group's dividend to 37.4 pence per share. These returns to shareholders have been supplemented by share buy-backs of £100.0 million announced in the year.

This level of vesting is reflective of the wider shareholder experience as each of the Group's profit, RoTE, earnings per share and dividend returns have, since 2020, increased. In respect of both absolute and relative TSR, only two of the peer group and the Company produced over 75% TSR over the three year period with four of the comparators being negative over the same period. The risk portion of the PSP, which considers both key elements of the Group's risk appetite as well as strategic risk across the medium term, provided a strong outturn for each element. The Group's credit, capital and liquidity risk were all well within risk appetite during the performance period and reflect the Group's strategic priorities of capital management and diversification. The customer and people metrics also performed in the top quartile and these support the Group's priority of having a customer and people focused culture. Additional detail on the customer and people outcomes is provided later in the report.

When considering this strong vesting performance, the Committee also noted the price at grant of these awards was £4.554 compared to the closing price at 30 September 2023 of £4.92. It was determined that this 8.0% increase, when put into the context of both the wider macro-economic environment and shareholder experience, did not constitute a windfall gain.

As detailed in the single figure remuneration summary, the total remuneration for the executive directors fell 3.7% from 2022 to 2023 despite these record results and distributions.

Group's remuneration philosophy

Our remuneration philosophy remains unchanged in seeking to recognise fairly the contribution of all employees and consistency of the application of this approach can be seen in the CEO pay ratio tables later in this report. During the year, the Committee undertook its annual review related to the fair pay agenda which confirmed its view that the Group is a fair pay employer. The fair pay section, included in the report to provide context for shareholders, can be found in section B7.2.4.

Further, the alignment with shareholder interests for the executive directors remains a key consideration for the Committee, with 20% of salary, 50% of annual bonuses and 100% of the longer term PSP being paid in shares. Both executive directors hold personal shareholdings materially above the Group's shareholding policy requirements.

Annual General Meeting remuneration report vote 2023

At the AGM in March 2023 both the binding and advisory votes on the directors' remuneration policy and report were approved by shareholders. The Committee was disappointed that the report received a vote in favour of only 69%. Engagement with a significant number of the Company's shareholders was undertaken, both before and after the AGM, and the Committee noted that there were no consistent themes for voting against the remuneration report by the minority of shareholders who did so.

Having reflected on the feedback received and the support of the majority of shareholders, the Committee continues to be satisfied that it acted in the best interests of the Company and all its stakeholders. While there were no consistent feedback themes, one area where the Committee acknowledges that disclosure could be improved relates to the determination of the number of share awards granted under the Performance Share Plan ('PSP'). As such, this report includes additional detail on how the PSP awards were calculated for those awards made in December 2022 (see 'Awards granted during the year ended 30 September 2023').

The calculation methodology last year is in line with standard practice in the banking industry due to the regulatory prohibition on paying dividend equivalents and the same methodology will be followed for the 2023 grant (with additional detail being included in both the Stock Exchange announcement detailing the awards made to executive directors and the 2024 Annual Report and Accounts).

Work of the Committee during the year

Over the year, discussions have been held with shareholders and proxy advisors regarding remuneration matters. I have also met with our People Forum to discuss both executive director and all-employee remuneration. Both of these interactions contributed to ensuring that the views and reflections of stakeholders are incorporated into the Committee's decision making.

Remuneration for the year ending 30 September 2024

Reflecting on the application of the policy over 2023, the Committee is satisfied that the policy approved at the 2023 AGM is working well and as such, there are no changes to the structure of remuneration for the year ending 30 September 2024. Salaries for the executive directors have been increased by 3%, which is lower than the workforce average of 5%.

Additionally, the Committee has reviewed the PSP metrics and has made changes to how the conditions operate, in respect of each of the climate and people metrics, reflecting the Group's strategic priorities. The changes to the climate metric have been made to reflect this new and constantly developing area. The people metric is updated to reflect market-wide developments and will, from the 2023 PSP grant, encompass diversity issues broader than simply gender.

PSP awards to be granted in December 2023 – consideration of windfall gains

Prior to granting the PSP in December 2023, the Committee will give due consideration to the need to apply any adjustment to reflect the potential for a windfall gain. At this stage, and considering the current share price relative to the share price used to grant the PSP awards in December 2022, the Committee does not consider that any adjustment is needed; however, this will be kept under review.

Conclusion

I trust that shareholders will support how the Group's remuneration philosophy has been implemented during the year. I recommend this report to shareholders and ask you to continue to support the work of the Committee by supporting the resolution to approve the Company's Directors' Remuneration Report set out in section B7.2, being put to the AGM in March 2024.

Hugo Tudor

Chair of the Remuneration Committee

6 December 2023

B7.2 Annual Report on Remuneration

Contents of the annual remuneration report

Remuneration summary

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

Examples of how we aligned remuneration to our strategy during the financial year:

Strategic priority	How success is measured	Where the priority is measured	
		Bonus	PSP
Growth	Loan book growth and margins	Financial performance	EPS and relative TSR
Diversification	Liquidity – increasing sources of funding Growing profitability outside of BTL	Risk measures and financial performance	EPS, relative TSR and risk assessment
Digitalisation	Increasing direct business flows and reducing customer lead times	Financial performance	EPS and relative TSR
Capital management	Credit quality	Risk measures and financial performance	Risk assessment and EPS
	Capital strength and efficiency	Risk measures	Relative TSR and risk assessment
	Cost control	Profit measures and personal objectives	EPS
Sustainability	Sustainable earnings	Financial performance	Relative TSR, EPS and risk assessment
	Reducing the impact our operations have on the environment together with a customer and people focussed culture	Personal objectives include ensuring good customer outcomes and support for Paragon's customers	Customer metrics focus on the views of customers across their Paragon lifecycle, people metrics focus on the employee journey and climate metrics focus on emissions of the Group and its portfolios

B7.2.1 The Remuneration Committee, key responsibilities and advisers

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

Committee membership

The Committee during the year comprised the following independent non-executive directors (the Chair of the Board being considered independent on appointment): Hugo Tudor (Chair of the Committee), Robert East (Chair of the Board), Tanvi Davda, Alison Morris and Graeme Yorston. In addition, Zoe Howorth was appointed to the Committee from 1 June 2023 (the date of her appointment as a director). Hugo Tudor will cease to be Chair from 7 December 2023 and Tanvi Davda will then become Chair.

The relevant experience of each director is set out in section B3.1. Information on the number of Committee meetings held and the individual attendance of members is given in section B3.3.

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

Key responsibilities

The Committee:

- Decides the Company's policy on executive remuneration, including pension rights and compensation payments of the executive directors
- Sets the remuneration for each of the executive directors, the Chair of the Board, the Company Secretary and all MRTs under the rules of the PRA / FCA which includes all members of the Executive Committee, the Internal Audit Director and 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-wide Internal Remuneration Policy for all employees and considers and approves the identification of the Group's MRTs, under financial services regulatory remuneration rules

Attendees

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

Advisors

During the year, the Committee considered advice from:

- Independent advisors – PricewaterhouseCoopers LLP ('PwC')
- The CEO, the Chair of the Risk and Compliance Committee, the Chief People Officer, the CRO and the Director of External Relations in determining remuneration for the year for executive directors and senior management

Independent advisors: additional information

Appointment process – PwC was appointed by the Committee following review processes in the financial year ended 2021 and are members of the Remuneration Consultants Group and as such voluntarily operate under its Code of Conduct in relation to executive remuneration in the UK. This supports the Committee's view that all advice received during the year was objective and independent

Connections to the Group – the Committee is satisfied that the PwC team providing remuneration advice to the Committee does not have any connection with the Group, or any individual director, that may impair its independence and / or objectivity

Fees – the total fees paid to PwC for advice to the Committee during the year amounted to £122,364 (including VAT) on a part fixed fee and a part time and materials basis

Other services – PwC provided other professional services to the Group during the year including regulatory support, risk modelling services and support with the Group's IRB implementation

Statement of voting at Annual General Meeting

The voting outcome for the resolution to approve the Annual Report on Remuneration and the resolution to approve the Remuneration Policy at the Company's AGM held on 1 March 2023 are set out below.

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Annual Report on Remuneration (2023)	126,778,994	69.19%	56,445,866	30.81%	183,224,860	5,780,942
Remuneration Policy (2023)	177,558,900	96.99%	5,517,947	3.01%	183,076,847	5,928,955

B7.2.2 Directors' remuneration for the year ended 30 September 2023

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

This section discusses the remuneration of the executive directors, the Chair and the non-executive directors in respect of the year, together with their interests in the shares of the Company and the shareholding requirements expected of them.

Single total figure of remuneration and supporting disclosures

Single total figure of remuneration for executive directors

Year ended 30 September 2023	*Note*	N S Terrington £000	R J Woodman £000	Total £000
Fixed remuneration				
Salaries	*(a)*	**921**	**582**	**1,503**
Allowances and benefits	*(b)*	**20**	**15**	**35**
Role based allowance ('RBA')	*(c)*	-	-	-
Pension allowance	*(d)*	**74**	**47**	**121**
Total fixed remuneration		**1,015**	**644**	**1,659**
Variable remuneration				
Bonus	*(e)*	**876**	**553**	**1,429**
Share awards	*(f)*	**1,364**	**859**	**2,223**
Total variable remuneration		**2,240**	**1,412**	**3,652**
Total		**3,255**	**2,056**	**5,311**

Year ended 30 September 2022	*Note*	N S Terrington £000	R J Woodman £000	Total £000
Fixed remuneration				
Salaries	*(a)*	629	396	1,025
Allowances and benefits	*(b)*	17	14	31
Role based allowance	*(c)*	140	90	230
Pension allowance	*(d)*	126	79	205
Total fixed remuneration		912	579	1,491
Variable remuneration				
Bonus	*(e)*	905	570	1,475
Share awards	*(f)*	1,560	982	2,542
Total variable remuneration		2,465	1,552	4,017
Total		3,377	2,131	5,508

a) Salaries

Effective from 1 October 2022, a portion of the executive directors' salaries has been paid quarterly in shares. The share element is not subject to performance conditions, is not pensionable, and is released over five years in equal tranches.

b) Allowances and benefits

Included within this total in the single figure tables are private health cover and a company car allowance (£10,000 to £12,000). Also included is a reimbursement from the Company in respect of: (i) costs associated with the purchase of shares for the RBA / salary as shares and (ii) certain travel costs incurred in connection with the performance of executive director duties which constitute taxable benefits in kind. These amounts represent amounts that HMRC treats as taxable together with an allowance to cover the tax. The Group provides the amount required to cover the tax liability. The amount will vary with the amount of brokerage costs / travel undertaken by the executive director.

c) Role based allowance ('RBA')

This allowance was introduced following the AGM in 2020 and was withdrawn, effective from 1 October 2022, under the Remuneration Policy approved at the 2023 AGM.

The RBA was paid quarterly in shares and released over five years in equal tranches. The RBA was not subject to performance conditions. Release of shares in connection with the RBA will continue until 2027.

d) Pension allowance

Both Nigel Terrington and Richard Woodman received a cash allowance in lieu of pension of 10% of cash salary for the year ended 30 September 2023.

e) Bonus

Bonus opportunity during the year was, in line with the Policy, 98% (2022: 150%) of salary. Based on the performance measures set out below, a bonus of 97% of maximum opportunity was awarded. The Committee determined that the formulaic outcomes under the bonus framework were fair and appropriate in light of the very strong financial and non-financial performance and exemplary leadership shown over the period, therefore it was decided that no discretion should be applied to the outcome.

The awards made and the way in which they will be delivered to satisfy the regulatory requirement for 60% of variable remuneration (including PSP awards) to be deferred are set out below.

Executive director	Salary	Maximum opportunity	Percentage award	Total bonus	Cash	Delivered in Shares[1]	DSBP awards[2]
	£000	% of salary	% of max	£000	£000	£000	£000
N S Terrington	921	98%	97%	**876**	393	393	90
R J Woodman	582	98%	97%	**553**	248	248	57

1. Delivered as shares, with all shareholder rights except the right to transfer shares until a year from the award date has lapsed, when the shares can be transferred or sold.

2. Bonus deferred under the DSBP as nil cost options which vest, in accordance with regulatory requirements, in equal tranches from year three to year seven. Each tranche will be subject to a one year holding period post-vest.

Balanced scorecard assessment

Measure	Weighting	Threshold	Target	Maximum	Actual	Outcome
Financial performance	**60%**					**59%**
Operating profit	30%	£222.2m	£242.9m	£253.3m	£277.6m	30%
RoTE (underlying)	12%	15.0%	17.25%	18.4%	20.2%	12%
NIM	6%	2.79%	2.95%	3.04%	3.09%	6%
Cost: income ratio (underlying)	6%	40.0%	38.6%	37.9%	36.6%	6%
CET1 ratio	6%	13.0%	14.5%	16.0%	15.5%	5%

Measure	Weighting	How measured	Outcome
Risk	**20%**	Qualitative assessment by the Remuneration Committee of:	**20%**
		• Credit performance has been exemplary across all of the Group's portfolios • Capital, liquidity and customer related risk appetite measures all significantly within appetite • Adoption of incoming Consumer Duty regulations completed successfully and by the required deadline • ERMF enhanced, leading to a stronger overall risk framework with a positive culture of first line ownership of risk	

Measure	Weighting	How measured	Outcome
Personal performance	**20%**	Qualitative assessment by the Remuneration Committee of individual targets as detailed below for each director.	**18%**
Overall outcome			97%

	Individual targets	Actual performance
Nigel Terrington	Strong leadership to deliver the Group's business plan and financial performance, within agreed risk appetites, upholding our values and always delivering good customer outcomes	• Record underlying profit before tax of £277.6 million increased by 25.4% from 2022 • Savings expansion to £13.3 billion with margin enhancement of 40 basis points • Regular surveys of intermediaries and customers show that levels of satisfaction were strong across all areas • Financial metrics strength has been delivered alongside improved liquidity
	Continue with technology development to digitalise the business for our customers, with improved service delivery, faster decision making and improved cost efficiencies	• Technology roadmap delivered the development finance origination platform, first two phases of post-completion portal for mortgages and decision accelerator for SME lending origination platform • Additional investment in infrastructure, cybersecurity and data controls • Continued progress made with over 82% of all applications processed through the SME lending digital origination portal
	Continue to develop the Group's savings strategy, expanding the addressable market and over time, utilising technology, including open banking, to broaden the customer reach	• Growth in deposits has facilitated all lending objectives and enabled liquidity flexibility • Significant enhancement to platform utilisation • Artificial intelligence ('AI') assessment commenced
	Progress the Group's sustainability strategy by supporting customers to meet their climate change requirements and obligations	**Operations:** • Second 'Responsible Business Report' delivered with positive feedback from employees, investors and other stakeholders • Decarbonisation report completed for Homer Road, Solihull (head office) and next steps to be agreed • Using a 2019 baseline, achieved a 42% reduction for 2023 emissions • Head office EPC rating improved to C during the year **Lending:** • Quality of lending stock improved as new lending to EPC rated A to C properties in the Mortgages portfolio exceeded redemptions month-on-month • 30% increase in lending on electric vehicles
	Continue to build a succession plan pipeline for Executive Committee roles	• Senior leadership programme is successfully continuing to support career development for top talent and build internal strengths • Internal successor for Managing Director of Premier Asset Finance appointed and strengthening senior sales and leadership capability in SME lending

	Individual targets	Actual performance
Richard Woodman	Strong leadership to deliver the Group's business plan and financial performance, within agreed risk appetites, upholding our values and always delivering good customer outcomes	• Strong financial metrics delivered in 2023 • Impairment coverage ratio increased to 49 basis points • EIR assumptions refined to ensure no debtor escalation in higher interest rate environment • Contingent liquidity enhanced • Investment grade corporate rating re-confirmed
	Maintain appropriate capital, liquidity and funding buffers to allow the Group to both support its customers and other stakeholders in stress and enhance capital efficiency	• Strong capital buffers maintained. Increased liquidity facilitated repurchase of legacy funding line and the acceleration of first TFSME payments in the first quarter of 2024, well ahead of original schedule • Share buy-back extended to £100.0 million reflecting increased capital capacity
	Further develop the Group's thinking on the risks of climate change and embed the management of climate-related risks within the Group's strategic plans, risk appetites and disclosures	• Delivery of enhanced climate disclosures for this reporting cycle • Increased focus on the Group's operational footprint and those financed emissions under its control
	Prioritise and embed IRB to boost the Group's risk capability and longer-term capital efficiency	• IRB phase 2 engagement with regulator throughout 2023
	Continue to improve financial control and reporting systems to enhance internal, external and regulatory reporting	• Reporting processes running smoothly including preparations for IRB requirements, embedding stress testing frameworks • Forward-looking management of EIR approach in rising interest rate environment confirms the strong reporting and control focus

f) Share awards: Paragon Performance Share Plan

The value shown in the single figure table in respect of share awards represents the value of those awards for the performance period ended 30 September 2023, as set out below.

	Vesting in year to 30 September 2023		Vesting in year to 30 September 2022	
	N S Terrington	R J Woodman	N S Terrington	R J Woodman
Grant date	**Dec 2020**	**Dec 2020**	**Jul 2020**	**Jul 2020**
Shares granted	236,661	149,046	312,429	196,763
Vesting percentage	96.41%	96.41%	93.13%	93.13%
Shares vesting	228,164	143,695	290,965	183,245
	£	£	£	£
Share price at vesting	5.1762[1]	5.1762[1]	4.8620[2]	4.8620[2]
Dividend equivalent per share	0.8010	0.8010	0.4990	0.4990
Value per share at vesting	5.9772	5.9772	5.3610	5.3610
Value of award at vesting	**1,363,775**	**858,889**	**1,559,863**	**982,376**

1. The PSP value for the year ended 30 September 2023 has been determined using the average closing share price for the three months ended 30 September 2023 as an estimate. The actual value of the awards will not be finalised until the share price on the vesting date in December 2023, following the Preliminary Results announcement, is known.

2. The value for the year ended 30 September 2022 has been restated based on the market value of the shares at the vesting date, 6 December 2022.

For the executive directors, the PSPs cannot be exercised for another two years following the completion of the three-year performance period, in line with the holding period in the Policy. During this period the executive directors will continue to be entitled to dividend equivalents.

The determination of the vesting outcomes for the December 2020 grant is described below. That for the July 2020 grant was set out in the Directors' Remuneration Report for the year ended 30 September 2022.

The vesting value in 2023 reflected a 14% increase in the share price between grant and vesting.

Awards vesting in respect of the year ended 30 September 2023

Awards granted in December 2020 under the Group's PSP are subject to performance conditions measured over the three financial years ended 30 September 2023. The metrics are split between financial and non-financial performance conditions.

The awards were granted at 180% of salary. Overall vesting as a percentage of maximum award was 96.41%.

The detail of the outturns of each of the conditions was as follows:

PSP grant in December 2020: financial performance conditions

	Weighting	Threshold vesting for 25% of maximum award	Maximum vesting	Actual performance	Vesting outcome
Relative TSR	25%	Median performance (being 55.3%)	Upper quartile performance (being 74.7%)	Above upper quartile performance (being 75.2%)	100.0%
Underlying basic EPS	25%	58 pence	66 pence or more	94.2 pence	100.0%

PSP grant in December 2020: non-financial performance conditions

<table>
<tr><th></th><th>Weighting</th><th colspan="2">Actual performance</th><th>Vesting outcome</th></tr>
<tr><td>Risk</td><td>12.5%</td><td colspan="2">50% of the risk metric is determined by the Committee based on an assessment by the CRO of six key elements of the Group's risk appetite: regulatory breaches, customer service, conduct, operational, capital and liquidity and credit losses. This noted that over the vesting period:
• There were no material regulatory breaches
• Credit losses have been well within risk appetite across all the Group's portfolios
• Complaints management performance was strong throughout
• Conduct risk framework and quality assurance strengthened
• Operational risk appetites include metrics relating to operational losses, issue management, IT and cyber security and people and outcomes as a whole have been positive
• Surplus capital has been maintained and excess capital has significantly increased with a share buyback programme in place for part of the last three financial years</td><td>88%</td></tr>
<tr><td></td><td></td><td colspan="2">Based on an assessment by the Committee, the strategic risk assessment reflects the management of risk with regard to the delivery of the Group's medium-term strategy, noting that over the vesting period:
• The loan portfolio has performed exceptionally well, with EWIs ('early warning indicators') being broadly benign. Interest rate risk management has protected NIM and customer positions
• Appropriate processes with regards to recruitment and retention of staff have given a near full employment position
• Earnings have diversified with the Commercial Lending division contribution increasing from £45.9 million in 2020 to £113.2 million in the year ended 2023
• Paragon pension plan moved from £20.4 million deficit in 2020 to a £13.0 million surplus</td><td>100%</td></tr>
<tr><td>Customer</td><td>12.5%</td><td>Customer insight feedback on key product lines</td><td>• NPS in line with industry average of +48
• Industry average for customer satisfaction was 78% with the Group's at 79%</td><td>90.0%</td></tr>
<tr><td></td><td></td><td>Customer complaints relative to risk appetite levels</td><td>• Complaints consistently below risk appetite tolerance
• Complaints resolved within eight weeks was on average 97.6%</td><td></td></tr>
</table>

PSP grant in December 2020: non-financial performance conditions

	Weighting	Actual performance		Vesting outcome
People	12.5%	Employee engagement	• Outcome for the full engagement survey in June 2023 was +11 above the industry norm • Wellbeing surveys during the pandemic (October 2020 to October 2021) delivered consistently positive scores for physical, social and overall wellbeing • Independent all employee survey for Investors in People ('IiP') achieved scores at or above the IiP average	93.3%
		Voluntary attrition compared to the industry norm	• Voluntary attrition (at 9.6%) remained consistently below the industry average of 16.4% as reported by XpertHR in their most recent December 2022 data	
		Gender diversity of senior management	• Gender diversity above the target level throughout the performance period	

There is no vesting for below threshold performance. There is straight-line vesting between the threshold and maximum for the TSR and EPS conditions. For the customer and people metrics there is 25% vesting at threshold performance and 50% vesting at target performance. For the risk metric the Committee determines the level of vesting between 0% and 100%.

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

Awards granted during the year ended 30 September 2023

On 16 December 2022 the following awards were granted as part of the executive directors' variable remuneration in respect of the year ended 30 September 2022. These awards are designed to fulfil the majority of the regulatory requirement that 60% of executive directors' variable remuneration should be deferred, with awards under the DSBP fulfilling the remainder of the requirement.

The awards were granted as nil-cost options, under the PSP with a face value of 180% of salary in line with the then extant Policy.

Executive director	Salary £000	Percentage grant	Face value of grant £000	Number of shares
N S Terrington	629	180%	1,132	290,331
R J Woodman	396	180%	713	182,847

The value of these awards will be disclosed in the single figure table for the year ending 30 September 2025, at the end of the performance period.

These awards have a three-year performance period, from 1 October 2022 to 30 September 2025, but become exercisable in equal annual tranches from the third to the seventh anniversaries of the grant.

The prices used to translate the monetary amounts of each tranche to a number of shares were based on market price data. The price was derived from the average closing mid-market price of the Company's shares on each of the five dealing days following the announcement of the Company's results for the year ended 30 September 2022, discounted to allow for the fact that no dividend equivalents are payable in connection with this grant. This dividend adjustment was based on market estimates of the expected dividend yield.

Following these calculations, the adjusted price used for the tranche that becomes exercisable on the third anniversary of the grant was £4.358, with the prices of the tranches which become exercisable in the four succeeding years being £4.127, £3.909, £3.703 and £3.507 respectively reflecting the dividend yield adjustment.

These awards are subject to the following performance conditions.

Performance measure	Weighting	Threshold vesting for 25% of maximum award	Maximum vesting
Financial measures			
Relative TSR	25.0%	Median performance	Upper quartile performance
Underlying Basic EPS	25.0%	74.4 pence	88.1 pence or more

Non-financial measures

Performance measure	Weighting	
Risk	20.0%	50% weighting is determined by the Committee based on an assessment by the CRO of the six key elements of the Group's risk appetite: regulatory breaches, conduct, operational, capital, 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
Climate	10.0%	Consideration will be given to (i) the development of an emissions balance sheet, (ii) progress in the development of targets for the management of financed emissions and (iii) establishment and progress with a framework to set and subsequently manage the Group's own emission reduction targets
Customer	10.0%	Consideration will be given to (i) customer insight feedback on key product lines and (ii) customer complaints relative to risk appetite levels In addition, the Committee must be satisfied with the implementation of the FCA's Consumer Duty requirements before any part of the Customer tranche can vest
People	10.0%	Consideration will be given to (i) employee engagement, (ii) voluntary attrition compared to industry averages and (iii) gender diversity of senior management

There is no vesting for below threshold performance. For the EPS and TSR metrics vesting rises from 25% at threshold to 100% at maximum on a straight line basis. For the other metrics the assessment is based on a number of elements, as set out above, and can result in any outcome between 0% and 100%.

In addition, prior to any awards vesting, the Committee must be satisfied that the performance of the employee and the underlying financial performance of the Group are satisfactory.

Relative TSR measure

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

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

Single figure of total remuneration for the Chair of the Board and non-executive directors

	Year ended 30 September 2023			Year ended 30 September 2022		
	Fees	**Benefits[1]**	**Total**	Fees	Benefits[1]	Total
	£000	**£000**	**£000**	£000	£000	£000
Chair of the Board						
R D East[2]	**255**	**2**	**257**	21	-	21
F J Clutterbuck[3]	**-**	**-**	**-**	235	13	248
Non-executive directors						
T P Davda[4]	**80**	**-**	**80**	6	-	6
P A Hill	**100**	**-**	**100**	90	-	90
Z L Howorth[5]	**27**	**-**	**27**	-	-	-
A C M Morris	**103**	**-**	**103**	90	-	90
B A Ridpath	**80**	**-**	**80**	70	-	70
H R Tudor	**117**	**-**	**117**	100	-	100
G H Yorston	**80**	**-**	**80**	70	-	70
Total	**842**	**2**	**844**	682	13	695

[1] The Chair of the Board receives private health cover on an individual or family basis in the same way as the executive directors. The Chair is also eligible for life cover. In addition, the previous Chair received a car allowance.

[2] R D East was appointed to the Board on 1 September 2022

[3] F J Clutterbuck resigned from the Board on 1 September 2022

[4] T P Davda was appointed to the Board on 1 September 2022

[5] Z L Howorth was appointed to the Board on 1 June 2023

Payments for loss of office

No payments for loss of office were made during the year ended 30 September 2023.

Directors’ interest in shares and shareholding requirements

Directors’ share interests

The interests of the executive directors in the shares of the Company as at 30 September 2023 (including those held by their connected persons) were:

	N S Terrington Number	R J Woodman Number
Unvested awards subject to performance conditions		
PSP	498,942	314,172
Unvested awards not subject to performance conditions		
DSBP	228,499	142,199
Sharesave	4,245	4,245
Total unvested awards	731,686	460,616
Vested but unexercised awards		
PSP[1]	519,129	326,940
DSBP	112,930	-
Total vested but unexercised awards	632,059	326,940
Shares beneficially held		
Acquired as salary in shares or RBA and subject to restrictions related to disposal	89,802	56,947
Not subject to restrictions on disposal	1,224,929	527,844
Total shares beneficially held	1,314,731	584,791
Total interest in shares	**2,678,476**	**1,372,347**
Awards exercised in the year		
DSBP	97,670	25,759
Total awards exercised in the year	**97,670**	**25,759**

[1] For the purposes of the table above, the awards granted in December 2020 are assumed to be vested but unexercised in respect of the percentage which will vest, 96.41%, and to have lapsed in respect of the balance.

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

The interests of the Chair of the Board and the non-executive directors at 30 September 2023, which consist entirely of ordinary shares, beneficially held, were as follows:

	2023
R D East	**10,000**
T P Davda	**5,701**
P A Hill	**2,659**
Z L Howorth	**-**
A C M Morris	**4,168**
B A Ridpath	**4,358**
H R Tudor	**63,000**
G H Yorston	**8,167**

As at 1 December 2023, the last practicable date prior to approving this Report, the Company had not been advised of any changes to the interests of the directors and their connected persons as set out in the tables above.

Share ownership guidelines

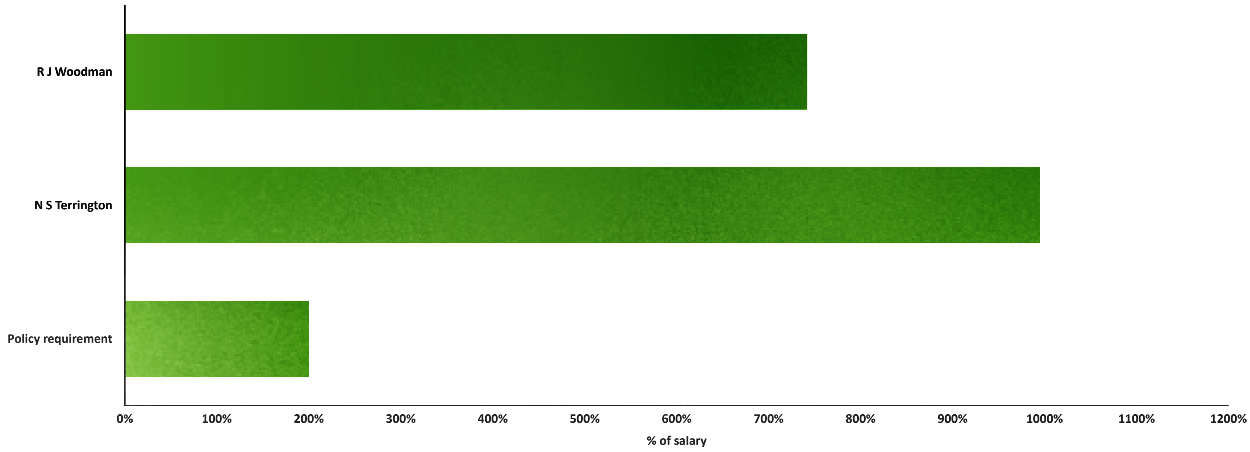
Executive directors are required to hold a minimum number of shares in the Company with a value of 200% of their total salary (both the cash and shares element), calculated as at 31 December each year (as it was approved at the AGM in 2023). The valuation is calculated on a net of income tax and national insurance basis where relevant.

For the purposes of these guidelines, directors' shareholdings include all beneficial holdings and unexercised share awards, other than those which are subject to performance conditions, as set out in the table above.

The chart below compares the executive directors' holdings at 30 September 2023 to those required by the guidelines, expressed in value terms as a percentage of salary. Valuation is based on a three month average price at 30 September 2023.

Directors' shareholding guidelines

30 September 2023



At 30 September 2023, the holdings of executive directors were in accordance with guideline levels.

Post-employment shareholding requirement

The post-cessation shareholding requirement requires that for two years following cessation of employment, based on their immediately pre-cessation salary, an executive director must retain such of their 'relevant' shares as have a value (as at cessation) equal to the shareholding guidelines, or (if lower) the number of shares actually held at the date of departure.

Relevant shares include all unexercised share awards not subject to a performance condition and those beneficial holdings acquired as part of a director's remuneration arrangements.

No former directors are subject to these guidelines.

B7.2.3 Application of remuneration policy for the year ending 30 September 2024

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

Overview

It is intended that the Remuneration Policy approved at the AGM in March 2023 will be applied for the year ending 30 September 2024 in the same way as it was applied in the preceding year.

Executive directors

Fixed pay

The salaries of the executive directors were increased by 3% from 1 October 2023, as set out below.

		Salary 1 October 2023	Salary with effect from 1 October 2022
		£000	£000
N S Terrington	Salary – paid in cash	759	737
	Salary – paid in shares	190	184
Total salary		**949**	**921**
R J Woodman	Salary – paid in cash	480	466
	Salary – paid in shares	120	116
Total salary		**600**	**582**

Delivery of fixed remuneration, pension allowance and benefit entitlements remain as described above for the year ended 30 September 2023.

Annual bonus

In line with the new Policy, the bonus opportunity for the financial year ending 30 September 2024 will be 98% of salary. In combination with the PSP, the bonus will be delivered in line with regulatory requirements.

Aligned with last year, the Committee has determined that performance will be assessed against a balanced scorecard of measures consisting of financial performance (60%) including core profit and RoTE, together with a range of other quantifiable metrics derived from the Group's financial plans and strategic development; risk management (20%); and personal performance (20%). The two primary measures of underlying profit and underlying RoTE comprise 80% of the financial performance award, but the Committee annually determines the appropriate secondary measures by reference to the strategic focus for the year. For 2024 the secondary measures will cover margin and costs.

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

PSP awards in respect of variable remuneration for the year ended 30 September 2023 are expected to be made in December 2023. Awards made to the executive directors will represent a value of 118% of salary, with the number of shares to be awarded calculated on the basis of market data at the grant date.

The intended performance conditions and weightings are set out below. Changes have been made to the climate and people metric, as detailed below.

In addition, there is an individual performance condition and a Group underlying performance underpin which must be met prior to vesting occurring.

Financial measures			
Performance measure	**Weighting**	**Threshold vesting for 25% of maximum award**	**Maximum vesting**
Relative TSR	25%	Median performance	Upper quartile performance
Underlying basic EPS	25%	80.0 pence	100.0 pence or more

Non-financial measures

Performance measure	Weighting	
Risk	20%	50% weighting is determined by the Committee based on an assessment from the CRO of the six key elements of the Group's risk appetite: regulatory breaches, conduct, operational, capital, 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
Climate	10%	Consideration will be given to i) operational footprint emissions reduction ii) financed emissions decarbonisation assessments; iii) sustainable products and iv) education and engagement
Customer	10%	Consideration will be given to (i) customer insight feedback on key product lines and (ii) customer complaints relative to risk appetite levels In addition, the Committee must be satisfied with the implementation of the FCA's Consumer Duty requirements before any part of the Customer tranche can vest
People	10%	Consideration will be given to (i) employee engagement, (ii) voluntary attrition compared to industry averages and (iii) diversity of senior management

There is no vesting for below threshold performance. For the EPS and TSR metrics, vesting rises from 25% at threshold to 100% at maximum on a straight line basis. For the risk, climate, customer and people metrics these are assessed across a number of elements as set out above and can result in any outcome between 0% and 100%.

TSR, Risk and Customer Metrics

No changes are proposed to the TSR, Risk and Customer metrics from those which applied to the December 2022 grant, noted above.

EPS Metric

The EPS targets have been updated to reflect the current macro-economic climate whilst maintaining an appropriate level of stretch compared to the Group's financial forecasts.

Climate metric

In developing a climate related metric, the Committee considered the Group's strategic aims together with its environmental footprint both through its own operations and via its commercial activities. Climate reporting and regulation is a developing area, and it is likely that the metrics within this condition will change as recognised good practice and reporting and management frameworks are enhanced in future awards. The climate metric, as with the other metrics, will be kept under annual review.

Success in respect of financed emissions will be measured by progress towards the development and delivery of decarbonisation assessments across core elements of the financed emissions portfolio, together with the continued development of the financed emissions balance sheet. The focus will, in part, be on the quality of data available to support the Group's understanding of emissions (for example, EPC matching) and will be used to establish internal targets that shadow Net Zero Banking Alliance expectations. Success in respect of sustainable products will be measured by the development of products to stimulate and meet customer demand. For the Group's operational footprint emissions (financed emissions and sustainable lending framework) there will be reporting of outcomes both internally and externally as appropriate.

People metric

The matters considered in respect of the people metric have remained unchanged since it was first introduced for the grant made in July 2020. The diversity element of the metric will, from the 2023 grant, be updated to encompass wider diversity matters, including comparison to Women in Finance Charter and the Parker Review targets, as well as considering the Group's compliance with relevant regulatory requirements on such matters.

Chair of the Board and non-executive director fees

During the year the fees payable to the Chair of the Board and non-executive directors were reviewed, by the Remuneration Committee and Board respectively, and the following increases set out below approved to take effect from 1 October 2023.

The Chair's fees had not increased since October 2017 and consequently a 10% increase was agreed to realign the fees to the market. Additionally non-executive directors' base fee increased by 5% aligned with the wider workforce (the other fees having increased or been introduced in 2022). The intention is that future increases for both the Chair and the non-executive directors will be annual and align with those given to the wider workforce so that spikes are less likely to occur.

Fees payable to the Chair of the Board and the non-executive directors are set out below on a per annum basis.

	Fee with effect from	
	1 October 2023	1 October 2022
	£000	£000
Chair of the Board	**280.5**	255.0
Non-executive directors		
Senior independent director (when also a committee chair)	**123.5**	120.0
Other committee chairs	**103.5**	100.0
Other non-executive directors	**83.5**	80.0

Each non-executive director receives a base annual fee of £73,500 with those non-executive directors who are chairs of committees receiving an additional £30,000 fee, while other non-executive directors receive £10,000 per annum in respect of their committee duties. The Senior Independent Director receives an additional £20,000 per annum for undertaking that role.

B7.2.4 Other information

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

This section provides information related to remuneration across the Group. This includes a description of the overall approach to all-employee remuneration in the Group and information showing how executive directors' remuneration compares with that for other employees and how it aligns with stakeholders' interests more widely.

Fair pay

Fair pay: group-wide remuneration philosophy

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

As in the previous year, a review was undertaken by the Committee related to the fair pay agenda which confirmed its view that the Group is a fair pay employer. This commitment to fair pay is reflected in the Group's:

- Support since 2016 for the minimum wage payable to all employees being that stated by the Living Wage Foundation, which during the year was £21,255 per annum outside London and was increased to £23,400 per annum in October 2023. This was applied by the Group from 1 November 2023
- Payment of Profit Related Pay ('PRP') to around 87% of the workforce
- Share schemes being available at both an all-employee and senior management level which help to align employees' interests with shareholders
- Alignment between executive pay and that of other senior managers as well as other employees
- People Forum providing an additional arena for discussion and feedback on executive and all-employee remuneration structures

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

How our pay principles aligned to the Code during the year ended 30 September 2023

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 which provides examples of remuneration alignment Performance conditions require a minimum level of performance to be achieved before any pay-out under variable pay schemes is considered
Predictability	Minimum, target and maximum levels of award for executive directors are shown within the Remuneration Policy	See Section B7.3 in the Annual Report and Accounts 2022 for the current full Policy
Alignment to culture	The Group's strong culture is reflected throughout its pay structures through consideration of the demonstration of its values. This applies when determining incentive outcomes for all employees as well as through its commitments to EDI policies and the Living Wage Foundation The current Remuneration Policy is fully aligned with our pay principles	Demonstration of the Group's values underpins our variable incentive frameworks. 30% of PSP awards for directors and other senior managers are assessed against ESG related (Customer, Climate and People) metrics to ensure alignment to our sustainability strategy The Group has paid the Living Wage Foundation rate for a number of years as part of its commitment to workforce equality and is committed to reducing its gender pay gap. See the remainder of this Section B7.2.4 for more details and Section A6
Risk	The pay arrangements for executive directors are consistent with, and promote, effective risk management through alignment with the Group's risk appetite Risk conditions are included within variable remuneration arrangements to align with regulatory expectations and shareholder interests All members of the Remuneration Committee are also members of the Risk and Compliance Committee, ensuring that risk is appropriately taken into account when determining remuneration policy and its outturns	The risk conditions in the annual and long-term incentives are tested annually by the Committee. The Committee has discretion to override formulaic outcomes Both annual bonus for MRTs and PSP outcomes for all participants are subject to malus and clawback provisions

How the Committee considers the views of all employees

The People Forum considers the relationship between executive remuneration and pay and reward across the Group on a regular basis. Meetings with the Chair of the Committee on executive remuneration to engage and explain its operation and to discuss remuneration across the wider workforce took place in November 2022 and November 2023 and form a regular part of the Forum's annual calendar.

Additionally, employees have the opportunity to make comments on any aspects of the Group's activities through the People Forum and through surveys, and the views of employees are taken into account by Human Resources. One of the duties of the Chief People Officer 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 into employees' views.

How all-employee remuneration is aligned with stakeholders' interests

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

- **Salary as shares** – in the year ended 30 September 2023, salary in the form of shares was only paid to the executive directors and certain members of the executive committee.
- **Sharesave** – opportunities to participate in the Sharesave scheme are the same for all employees and therefore the information provided in the executive director table equally applies to all employees. Paragon's Sharesave scheme has operated for many years, usually on an annual basis, and encourages employees to become shareholders in the Group through this tax efficient mechanism. Take-up in currently outstanding SAYE grants is approximately 63% of eligible employees reflecting the continued and ongoing alignment between employees and shareholders and employee commitment to the growth of the Group.

Operation	Maximum opportunity	Performance conditions
Salary		
Same as executive directors (see Policy Summary section B7.3).	Salaries are determined in line with performance, culture, external market conditions and retention factors. The Committee is made aware of the outcomes of salary reviews across the Group before it determines those of the executive directors, Company Secretary and MRTs. As it has done for a number of years, the Living Wage Foundation rate is the minimum that is paid to all employees, as well as contractors' staff employed at Paragon sites such as cleaners and security personnel who are not on a training rate of pay (for example apprenticeships).	Same as executive directors (see Policy Report – 2022 Annual Report and Accounts section B7.3).
Benefits		
Provision of market competitive benefits (contractual and voluntary) designed to promote financial and emotional wellbeing and which allows individuals to tailor benefits to suit their lifestyle. This includes the choice of private healthcare on the same basis as the executive directors for senior employees. A number of legacy arrangements exist.	Where private healthcare is provided as part of an employee's remuneration, it is on the same basis as for the executive directors. This is also the case for other benefits (contractual and voluntary) that an employee chooses to receive. The maximum level of benefits for all employees is determined on the same basis as the executive directors.	None.

Operation	Maximum opportunity	Performance conditions
Retirement benefits		
The majority of employees can join the Paragon Worksave Pension Plan, the Group's defined contribution pension plan. In this plan employee contributions are matched equally by percent by the employer up to 6% of salary; employee contributions from 6% upwards are matched by an employer contribution of 10% of salary. A number of legacy arrangements exist including the Paragon Pension Plan.	Maximum contribution for the Paragon Worksave Pension Plan is 10% of salary. Maximum contribution to the Paragon Pension Plan, from April 2023, is 12.5% of salary. Maximum cash supplement contribution (where a former member of the Paragon Pension Plan below executive director level has left the Plan) is 45% of salary.	None.

In respect of annual bonus and PSP the comparison is made between the executive directors and senior employees with the purpose and link to strategy being the same as for the executive directors and therefore not repeated below:

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

** Deferral:*

All MRTs will have deferral in line with regulatory requirements. Other employees may be subject to deferral from time to time in line with the operational requirements of the Group and the Committee's determination.

Operation	Maximum opportunity	Performance conditions
Paragon Performance Share Plan ('PSP')		
Same as executive directors (see Policy Summary section B7.3) excepting the applicability, or otherwise, to an individual of PRA remuneration rules in respect of post-performance period deliverability of the award outcomes.	The maximum award level (except in exceptional circumstances) outside of the executive directors is 100% of salary which is generally only granted to members of the executive committee.	Same as executive directors (see Policy Report – 2022 Annual Report and Accounts section B7.3).

Other variable pay opportunities

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

- **PRP** – for many years a cash-based PRP distribution of 1% of group profits has been paid and forms a part of the Group's culture of ensuring a strong connection between the outcomes of the business and employees. Employees below director and head of function level are eligible to participate in this scheme, which pays out a flat sum to all eligible employees
- **Discretionary bonus** – all employees whose performance has exceeded expectations are eligible for a discretionary bonus
- **Other** – in addition to the above noted certain employees below management level are eligible for overtime pay

Further, there are a few financial incentive schemes, separate to the annual variable bonus noted above, which operate in certain operational areas of the business from time-to-time. All such schemes are required to be approved by the Chief People Officer, CFO and Conduct and Compliance Director before implementation and are then reviewed at least annually. Payments under such arrangements, if they are applicable to MRTs, are considered by the Committee.

Remuneration comparisons

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

The table below shows, for the last four financial years, the percentage change in the salary, benefits and bonuses of each of the directors who held office during both the year and the previous year, compared against the percentage change in each of those components of pay for an average employee.

The table does not contain in the prior year data, information on directors who were no longer directors at the beginning of the current financial year. Neither does it contain information for any director in their year of appointment as they did not receive any remuneration in the comparator period.

			Salaries and fees	Allowances and benefits	Bonus
			%	%	%
2023					
N S Terrington		*(a)*	**46.4%**	**17.6%**	**(3.2)%**
R J Woodman		*(a)*	**47.0%**	**7.1%**	**(3.0)%**
R D East	From 01/09/22	*(b)*	**1,114.2%**	**-**	**-**
T P Davda	From 01/09/22	*(b)*	**1,233.3%**	**-**	**-**
P A Hill			**11.1%**	**-**	**-**
A C M Morris		*(c)*	**14.4%**	**-**	**-**
B A Ridpath			**14.2%**	**-**	**-**
H R Tudor		*(c)*	**17.0%**	**-**	**-**
G H Yorston			**14.2%**	**-**	**-**
Average Employee			**4.9%**	**(4.5)%**	**(13.2)%**
2022					
N S Terrington			5.0%	21.4%	4.9%
R J Woodman			5.0%	16.7%	4.8%
P A Hill	From 27/10/20	*(b)*	18.4%	-	-
A C M Morris			5.9%	-	-
B A Ridpath			7.7%	-	-
H R Tudor			5.3%	-	-
G H Yorston			7.7%	-	-
Average Employee			**5.1%**	**(2.1)%**	**15.0%**
2021					
NS Terrington			6.4%	(46.2)%	45.3%
RJ Woodman			6.5%	-	45.5%
A C M Morris	From 26/03/20	*(b)*	93.2%	-	-
B A Ridpath			-	-	-
H R Tudor		*(c)*	9.2%	-	-
G H Yorston			-	-	-
Average Employee			**1.0%**	**(5.9)%**	**101.7%**
2020					
NS Terrington			11.9%	4.0%	(33.9)%
RJ Woodman			11.7%	-	(33.9)%
B A Ridpath			-	-	-
H R Tudor		*(c)*	2.3%	-	-
G H Yorston			-	-	-
Average Employee			**8.5%**	**19.2%**	**(25.7)%**

(a) Impact of remuneration policy changes

(b) Appointed during the comparator year

(c) Change of responsibilities in the year

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

For differences between prior years please see the relevant prior years' Annual Report and Accounts.

(a) Impact of remuneration policy changes

Following the approval by shareholders of a new directors' remuneration policy at the AGM in March 2023 the remuneration packages of the executive directors were rebalanced. The changes represent a minor rebalancing between variable and fixed pay such that total maximum pay was reduced while maintaining target pay. This rebalancing significantly impacted individual line items, meaning that the line-by-line comparison set out above should be set in the following context.

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

Following the AGM in 2023 and effective from 1 October 2022 a new definition of salary was introduced which included salary in shares with the RBA being removed. As such, the portion of salary used in the comparison calculation between 2023 and 2022 excludes the RBA for 2022 but includes the proportion of salary delivered in shares for 2023.

(b) Appointed during the comparator year and (c) Change of responsibilities during the year

'Salaries and fees' – for non-executive directors (excluding R D East and T P Davda where the comparison is between a month's fees in 2022 and a full year's fees in 2023) the increases are due to changes in the fees for chairing a committee, being senior independent director ('SID') or being a member of a committee in 2023. The base fee remained unchanged between 2022 and 2023. Further, Alison Morris became SID in August 2023 when Hugo Tudor ceased to be SID.

Other information

- **'Allowances and benefits'** – these are calculated using the data provided in the single figure tables.

As noted previously 'Allowances and benefits' include a reimbursement from the Company in respect of certain brokerage costs together with travel costs incurred in connection with the performance of executive director duties which constitute taxable benefits in kind. The amounts included represent the amounts HMRC treats as taxable together with an allowance to cover the tax. The Group provides the amount required to cover the tax liability.

The changes in the average employee section of the table for this item in cash terms are due to a decrease of around £90 between 2023 and 2022.

- **'Bonuses'** – the decline in the bonuses between 2023 and 2022 for the average employee is primarily due to the decrease in the level of PRP, following a record PRP payment in 2022.

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	%	%
2023	3,255	97.0	96.41
2022	3,377	96.0	93.13
2021	2,991	96.1	97.00
2020	2,174	66.1	72.00
2019	3,001	89.4	95.44
2018	2,426	90.0	72.47
2017	2,305	90.0	63.51
2016	1,956	75.0	50.00
2015	2,546	100.0	100.00
2014	3,113	100.0	100.00

Performance graph and table

The following graph shows the Company's TSR performance compared with the performance of the FTSE 250 index. This graph shows the value, by 30 September 2023, of £100 invested in Paragon Banking Group PLC on 30 September 2013, compared with £100 invested in the FTSE 250 index.

Ten-year return index for the FTSE 250

Ten years ended 30 September 2023

CEO pay ratio

The table below sets out the CEO pay ratio compared to the 25th, median and 75th percentile employee within the Group. In each of the years reported, the Group used Option A as defined in the Companies (Miscellaneous Reporting) Regulations 2018, as this calculation methodology was considered to be the most accurate method. This option is calculated in accordance with the single figure table methodology as at 30 September 2023.

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

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

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2023	Option A	113:1	83:1	53:1
2022	Option A	112:1	84:1	52:1
2021	Option A	113:1	83:1	50:1
2020	Option A	88:1	64:1	37:1
2019	Option A	125:1	95:1	55:1

The base salaries and total remuneration details relating to the relevant identified employees in the two most recent years are shown below.

	2023			2022		
	25th percentile pay	**Median pay**	**75th percentile pay**	25th percentile pay	Median pay	75th percentile pay
	£	**£**	**£**	**£**	**£**	**£**
Base salary	**26,000**	**35,000**	**56,000**	22,000	29,000	55,000
Total remuneration	**30,000**	**40,000**	**64,000**	30,000	40,000	65,000

Change in CEO pay ratios

The limited changes in the CEO pay ratios shown above across all percentiles (with the exception of the early part of the Covid pandemic included in 2020) show a consistency of approach to remuneration for all employees over the noted periods. Whilst it was expected that the CEO pay ratio might be volatile from year to year, reflective of the bonus and PSP outcomes in any year this, to date, has not been the case.

The median pay ratio for each financial year is consistent with Paragon's remuneration and career progression policies because it shows that Paragon has continued to recognise all employees consistently and equitably.

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.

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	**2023**	2022	Change
		£m	£m	£m
Wages and salaries	*57*	**84.6**	81.9	2.7
Dividend paid	*48*	**67.9**	68.9	(1.0)
Share buy-backs	*47*	**111.5**	66.9	44.6
Loan advances		**3,008.6**	3,214.7	(206.1)
Corporation tax paid	*49*	**75.1**	56.5	18.6

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

Other information

Notice periods and terms of engagement

The executive directors hold one year rolling contracts in line with current market practice and the Committee reviews the terms of these contracts periodically. 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, 10 March 2010 and 21 March 2023)
R J Woodman	8 February 1996 (as amended 10 March 2010 and 21 March 2023)

All new executive directors will have service contracts that are terminable by the Company and the executive director on a maximum of twelve months' notice. Chair and non-executive director appointments are for three years unless terminated earlier by, and at the discretion of, the director or the Company. The required notice period is one year for the Chair and three months for the non-executive directors. Current terms of engagement for the Chair and non-executive directors apply for the following periods:

Director	Original appointment date	Current letter of appointment end date
R D East	1 September 2022	31 August 2025
T P Davda	1 September 2022	31 August 2025
P A Hill	27 October 2020	26 October 2026
Z L Howorth	1 June 2023	31 May 2026
A C M Morris	26 March 2020	25 March 2026
B A Ridpath	20 September 2017	19 September 2026
H R Tudor	24 November 2014	23 November 2024
G H Yorston	20 September 2017	19 September 2026

B7.3 Policy summary

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

This part of the Directors' Remuneration Report summarises the Directors' Remuneration Policy that was adopted at the AGM on 1 March 2023. This is outline information only in respect of the executive directors, 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.

For the full Policy Report, please refer to the Annual Report and Accounts for the year ended 30 September 2022 available at www.paragonbankinggroup.co.uk.

The table below illustrates how the remuneration of the executive directors is structured and delivered:

Structure	Delivered as	
Salary	Shares	20%
	Cash	80%
Pension 10% of cash salary		All in cash
Annual bonus 98% of salary	Shares	50%
	Cash	50%
Paragon Performance Share Plan (LTIP) 118% of salary		All in shares

Elements of the remuneration policy for executive directors

Purpose and link to strategy	Operation
Salary	
To provide a competitive, fixed component that reflects the scope of individual responsibilities and recognises sustained individual performance in the role.	Salaries are typically reviewed annually, taking into account a number of factors including (but not limited to) the value of the individual to the business, 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. For current incumbents salary is paid 20% in shares and 80% in cash. The portion in shares will be subject to a holding requirement and released over a five year period.
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.
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).

Purpose and link to strategy	Operation
Annual bonus	
To incentivise executive directors 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 with a proportion of the 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 below. The annual bonus will be delivered in shares and/or cash which, in combination with the PSP award, will be structured in line with the regulatory requirements on the deferral of variable pay under the PRA remuneration rules. A maximum of 50% of the upfront bonus earned will be paid in cash, and at least 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.
Performance share plan ('PSP')	
To incentivise executive directors 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. At the end of the performance period, the performance outcome will be used to assess the percentage of the awards that will 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. Malus and clawback apply to the PSP awards as described below.
Sharesave plan	
To provide all employees with the opportunity to become shareholders on the same terms.	Periodic invitations are made to participate in the Company's all-employee 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%.

Malus and clawback

Annual bonus and PSP awards are subject to malus and clawback provisions in exceptional circumstances as detailed in the Directors' Remuneration Policy included in the Annual Report and Accounts 2022. Any incentive awards may be reduced or cancelled before vesting or clawed back for a period of up to seven years from date of grant. This may be extended to ten years in the event of ongoing internal/regulatory investigation at the end of the seven-year period.

Shareholding guidelines

All executive directors are required to hold a number of shares in the Company with a market value of 200% of their salary. The guideline must be met within a reasonable timeframe (typically expected to be within five years of appointment) and executive directors are normally required to retain 50% of the shares paid as salary or acquired as annual bonus, PSP or DSBP awards (after sales to cover tax) until the guideline is met.

Reflecting best practice, the Committee has a post-cessation shareholding requirement. This requires that for two years following cessation of role, an executive director must retain a number of shares (determined on cessation) equal to their shareholding guideline (or their actual shareholding if lower). Shares that have been purchased by the executive director will not be included for the purposes of determining the number of shares to be retained.

B7.4 Approval of Director's Remuneration Report

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

6 December 2023

B8. Risk management

> **As we look ahead to 2024, it is anticipated that many of the issues impacting the Group and the UK economy more broadly during the last twelve months will continue to dominate the Committee's agenda. We fully expect the macroeconomic environment to continue to be challenging, and remain a key area of focus.**

Peter Hill, Chair of the Risk and Compliance Committee

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

Dear Shareholder

As Chair of the Risk and Compliance Committee I am writing to you to explain the work we, as a committee, have undertaken during the last year and how we have successfully discharged our responsibilities in this respect. The Group has faced an evolving and diverse risk agenda over the last twelve months and the Committee has provided oversight and challenge throughout the period, ensuring that current and emerging risks are appropriately assessed and managed.

Looking back over the last financial year, the start of the period was dominated by the consequences of the mini-budget and the ensuing market volatility. Further uncertainty was witnessed during early 2023 with the collapse of several banks in the US and internationally, and the potential for wider contagion to UK banks. This has been coupled with the ongoing effects of the conflict in Ukraine, which has continued to impact the global economy, particularly affecting the supply of various commodities. The combination of these factors has continued to generate significant economic challenges and spiralling cost of living fuelled by inflationary pressures and consecutive interest rate rises.

The Committee has responded positively to these challenges, and I remain impressed with how these have been handled, with appropriate strategies implemented to ensure the Group continues to operate effectively and within its stated risk appetite.

I expect these issues to remain high on the risk agenda over the coming months and the Group will continue to focus on managing these impacts as a matter of course. However, it is important that the Committee remains a forward-looking body and, as the Chair of the Committee, my priority is to ensure that we also consider those emerging risks that may impact the Group's strategy or operating capability in the future.

The Enterprise Risk Management Framework ('ERMF') is key in ensuring the Group continues to identify, assess and manage those risks which may be detrimental, and I am pleased to see that this framework continues to mature and embed in an appropriate way. The refinement of the ERMF is an ongoing process, ensuring it remains proportionate, and the Committee remains committed to continual investment to maintain an ERMF with robust systems and controls that maintain compliance with statutory and regulatory obligations.

The enhancements made to the ERMF over the last few years have been enabled by a strong and pervasive risk culture embedded in day-to-day decision making and understood throughout the organisation. This continues to be a key enabler of effective risk management across the Group. These improvements have been evidenced in the regular dedicated risk culture reporting provided to the Committee and also in the Group's employee engagement survey, which reflected a good understanding of individual risk management responsibilities at all levels.

The importance of a positive and well-understood risk culture has also been a helpful foundation in the Group successfully meeting the first regulatory deadlines for the FCA's Consumer Duty, relating to on-sale products. The Consumer Duty requires a strong, customer-focussed culture to deliver good outcomes for retail customers and, during the year, the Committee has discussed and overseen the programme of work implementing the changes required by the Consumer Duty across the business, as a priority. Progress updates have been provided at each meeting and reporting has been enhanced to ensure that the Committee receives meaningful information to challenge effectively and gain assurance that the Consumer Duty is fully embedded.

As the 2024 final deadline for legacy products approaches, management information will continue to evolve and report potential areas of poor customer outcomes across the Group's in-scope portfolios, with the Committee overseeing the identification and resolution of issues.

The ongoing embedding of the obligations under the Consumer Duty will continue to remain a priority for the Committee over the coming years as we approach the next deadline, and continue to implement a culture of continuous challenge and improvement in the delivery of good customer outcomes.

Focus during 2023

Last year I set out the Committee's priorities for the 2023 financial year and I am pleased to say that these commitments have been met comprehensively, despite the challenges posed by new and emerging issues, which have required the Committee to react promptly and reprioritise accordingly. I can therefore confirm the Committee has diligently provided oversight and consideration of the following key areas:

- Ongoing monitoring of the macro-economic challenges with particular attention paid to the assessment of customer affordability and its impact on lending decisions. Credit appetites and policies have been subject to constant review and the Committee has considered the impact on stakeholders, ensuring, in particular, that appropriate support is provided to customers
- Reviewing any impacts on the Group of possible supply issues particularly in respect of energy, which was subject to detailed scenario testing during the winter of 2022/23
- Reviewing the implementation of the programme of work undertaken ensuring that the Group successfully met the July 2023 deadline for the first phase of the new FCA Consumer Duty. The Committee has provided continuous oversight of progress ensuring alignment with regulatory expectation and the Group's commitment to ensuring that customers receive good outcomes
- Oversight of the ongoing IRB application, including refinements made following PRA feedback
- Ongoing review of the Group's refinement of its financial crime risk and controls framework to ensure that it remains fit for purpose and continues to evolve to meet increasing regulatory expectations
- Continuing review of the potential impacts of the post-Brexit financial services regulatory regime with particular focus on potential impacts on the Group and its obligations following adoption of the Financial Services and Markets Bill in June 2023
- Further embedding of the Group's risk culture, which is key to supporting the maturing ERMF, with ongoing enhancement to risk reporting capabilities, ensuring appropriate focus on high materiality matters and improving the robustness of horizon scanning

In addition to these stated priorities, the Committee continues to maintain a balance between overseeing items in line with its core responsibilities as laid out in its terms of reference and ensuring that new and emerging issues are appropriately included in the agenda. During the year the Committee has provided close oversight of specific risk issues including:

- Monitoring the ongoing impacts of elevated levels of inflation and rising interest rates across the suite of principal risks

  In particular, the Committee has considered a range of economic scenarios and reviewed the potential impacts on liquidity and market risk exposures. In light of these assessments the Committee has overseen and approved revisions to risk appetite ensuring that the approach to management of such risks remains prudent and well within buffers

- Continuing focus on the impact of the economic downturn on the lending lines and the impacts on credit policy. Despite the resilience of the buy-to-let portfolio, the Committee has focussed heavily on monitoring trends in arrears together with broader implications of the increased cost of living more generally for both customers and employees

- Maintaining a focus on good outcomes for customers in light of challenging economic conditions and further guidance from the FCA to ensure that appropriate support is in place for those customers facing financial difficulties

Other items addressed by the Committee, including ongoing oversight of the treatment of customers in vulnerable circumstances, the Group's response to climate change, and operational resilience are set out in section B8.2.

In addition, aligned with its overarching governance mandate, the Committee has reviewed the assumptions and updates to the Group's Recovery Plan, ICAAP and ILAAP documents. This included an overview of the scenario library which supports all stress testing processes to ensure they remain relevant and forward-looking. The Committee has also reviewed and approved the risk policies for each principal risk which included review and challenge of the relevant risk appetite measures.

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.

2024 and beyond

As we look ahead to 2024, it is anticipated that many of the issues impacting the Group and the UK economy more broadly during the last twelve months will continue to dominate the Committee's agenda. We fully expect the macroeconomic environment to continue to be challenging, and remain a key area of focus. However, I am confident that the Committee's close oversight of any credit stresses, coupled with the Group's prudent lending approach, effective capital management and robust liquidity levels will position it strongly in the face of further market volatility.

Whilst these conditions will undoubtedly continue to pose challenges across the industry, the Committee will continue to oversee all the principal risks facing the Group, ensuring that it remains vigilant in ensuring that any new and emerging issues are identified, undertaking robust assessment of these to ensure effective management in accordance with the Group's risk appetite.

Other priorities for the Committee will include:

- Ongoing monitoring of the embedding of the FCA Consumer Duty with enhanced reporting and oversight of plans and delivery to meet the final 2024 regulatory deadline

- Focus on identifying any signs of customer vulnerability in light of the continuing economic challenges and ensuring that the Group delivers good outcomes for all customers

- Review of the impacts of strategic transformation on the risk profile given the level of change in train and planned across all business lines. Change execution risk remains a key area of focus as the Group looks at new and innovative ways to ensure it remains financially and operationally resilient

- Ongoing review of the final policy implications of Basel 3.1 as the Group prepares to meet the 2025 implementation deadline

- Oversight and review of the Group's progress in obtaining IRB accreditation

- Close monitoring of wider industry trends in rising levels of claims management company activity

- Ongoing oversight of liquidity management given the failure of Silicon Valley Bank earlier this year

Whilst the challenges this year have been significant, the Group has clearly demonstrated its ability to react in a timely and agile way. The Group has been able to respond quickly as new threats have emerged, and I am confident that the skills and experience I have seen employed during the year, in managing both actual and emerging risks, position the Group well as circumstances continue to evolve.

The robustness of the firmly embedded three lines of defence model, together with the Group's established risk governance and reporting processes continues to ensure the Committee is able to provide effective oversight of risk issues therefore ensuring that the Group is well-placed to assess and manage any challenges it may face over the coming year.

Peter Hill

Chair of the Risk and Compliance Committee

6 December 2023

B8.2 Risk governance

The Group's approach to governance and the committee structures are described in Section B4.1. The risk committee structure and lines of oversight in place throughout the year are set out below.

Risk and Compliance Committee

The Risk and Compliance Committee assists the Board in fulfilling its responsibilities for risk management. It comprises the independent non-executive directors and the Chair of the Board. The terms of reference, which were reviewed and approved by the Board in December 2022 and again in November 2023, after the end of the year, align with the 2018 Code and good practice.

The Committee's responsibilities include reviewing, on behalf of the Board:

- Recommendations and matters escalated from the ERC
- The Group's current and future risk appetite, including the extent and categories of risk which the Board regards as acceptable
- The effectiveness of the Group's ERMF and the extent to which risks inherent in the Group's business activities and strategic objectives are controlled within the risk appetite established by the Board
- The effectiveness of the Group's systems and controls for compliance with statutory and regulatory obligations
- The appropriateness of the Group's risk culture, to ensure it supports the Group's stated risk appetite
- The effectiveness of the Group's strategy in promoting good outcomes for customers and integrity in the market as central to its operations and culture
- 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 Group's processes for compliance with laws, regulations and ethical codes of practice and the prevention of fraud

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 Committee delegates the review and approval of material aspects of the rating and estimation processes in relation to credit and finance models to the MRC.

The Committee meets at least four times a year. The executive directors, CRO, Chief Operating Officer, General Counsel and Internal Audit Director are invited to attend meetings of the Committee. 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 annually with the CRO, without the presence of executive management, to discuss his remit and any issues arising from it.

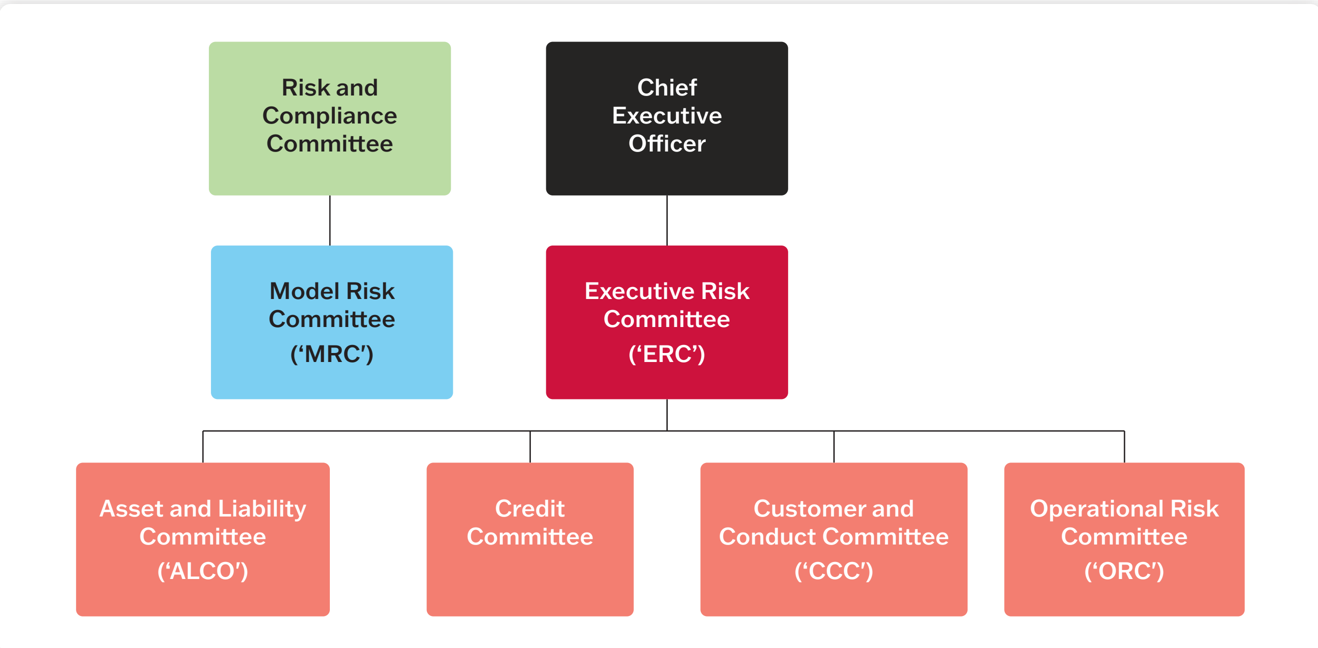
The Committee also has the power to requisition a meeting with the Internal Audit Director and/or the external auditor without the presence of executive management to discuss any matters that any of these parties believe should be discussed privately.

Standing items covered in each meeting of the Committee include:

- Reviews of the principal risks facing the Group
- Consideration of new or emerging risks and regulatory developments and their impact on the Group with particular focus in the year on Consumer Duty, Operational Resilience and the impacts of Basel 3.1
- Consideration and challenge of management's rating of the various risk categories to which the Group is exposed
- Consideration of the root causes and impacts 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 for each of the Group's principal risks to ensure they remained consistent with the delivery of the Group's strategic objectives, proposing any required changes to the Board, as required
- Reviewed the ongoing enhancements to the Group's ERMF including approaches to risk acceptance and the wider risk assurance framework



- Continued to monitor progress in respect of the Group's application for regulatory approval of its IRB approach to credit risk management
- Maintained ongoing focus on fair treatment of customers in light of challenging economic conditions and further guidance from the FCA to ensure that appropriate support is in place for those customers facing financial difficulties
- Provided ongoing oversight as the Group worked to implement the requirements of the FCA Consumer Duty on its products and services to ensure it successfully met the July 2023 deadline
- Reviewed the Group's ongoing embedding of its approach to Operational Resilience with a regular focus on the impacts of the Group's technology transformation programme on the risk and resilience profile. The Committee also continued to receive updates on the broader cyber landscape and the potential risks this may pose to the Group's resilience
- Maintained oversight of the Group's long-term digitalisation programme, considering the execution risk inherent in any such transformation, evaluating the impact across the principal risks of the adoption of new systems and ways of working and ensuring that the development of risk management and control systems proceeds in parallel with that of operational applications
- Provided oversight on the Group's progress on responding to the increasing challenges posed by climate change and the further embedding of climate change risk through enhancements to measures and standards to support the Group's broader climate change commitments
- Undertook ongoing oversight of third-party outsourcing and material supplier arrangements to ensure that the management of these remains commensurate with the Group's risk appetite
- Provided oversight of the Group's engagement in the PRA consultation process on the implementation of Basel 3.1 and reviewed its potential impacts on capital requirements
- Conducted deep-dive reviews into targeted risk areas, particularly where broader industry issues or regulatory publications have required an internal impact analysis

  During the year themes for these reviews included: the impact of the collapses of Silicon Valley Bank and Credit Suisse; specific scenarios on the impact of rising interest rates following the Bank of England's increases in the base rate; and potential further interest rate increases, rising inflation and the broader consequences of the cost of living crisis
- Undertook regular focussed reviews of the principal risks including credit risk, capital risk, liquidity and market risk, climate change risk, conduct risk, strategic risk, reputational risk, model risk and across the different categories of operational risk
- Reviewed, challenged and approved the Management Responsibilities Map
- Reviewed, challenged and approved the terms of reference of the MRC
- Reviewed, challenged and approved the Compliance Monitoring Plan and its subsequent updates
- Reviewed, challenged and approved the Money Laundering Reporting Officer's annual report in addition to providing continued oversight of the ongoing work to strengthen AML controls
- Considered and challenged reports in relation to the ICAAP and Recovery Plan, recommending approval to the Board
- Undertook preliminary work in respect of the 2023 ILAAP, scheduled to be presented for approval after the year end
- Challenged and approved various key risk policies
- Reviewed the potential impacts of regulatory publications including FCA and PRA priorities

To ensure the Committee is able to provide effective oversight, members undertake regular training on risk matters through a comprehensive board education programme (section B4.5). During the year the members of the Committee have attended sessions on a wide variety of relevant risk topics from internal and external subject matter experts including: Deep-dives across all business areas; ICAAP and Stress and Scenario Testing; Interest Rate Risk in the Banking Book; Cyber Risk; ESG and Climate Change; and Macro-Economic Trends.

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.

Executive risk committees

Executive Risk Committee ('ERC')

The purpose of the ERC is to assist the CEO in designing and embedding the Group's risk management framework, monitoring adherence to risk appetite statements and identifying, assessing and controlling the principal risks within the Group. The ERC was established under the specific authority of the CEO, is chaired by the CRO, and includes all Executive Committee members, with the Internal Audit Director attending as an observer. 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:

- Reviewing, as appropriate from time to time, the appropriateness and effectiveness of the ERMF and supporting frameworks 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 Performance ExCo)
- Reviewing the process and outcome of the Group's ICAAP, ILAAP and Recovery Plan and making recommendations to the Risk and Compliance Committee and Board for approval

- Considering the implications of any proposed legislative or regulatory changes that may be material to the Group's risk appetite, risk exposure, risk management and regulatory compliance

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

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

Asset and Liability Committee ('ALCO')

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

The principal purpose of ALCO is to monitor and review the financial risk management of the Group's balance sheet. As such, it is responsible for overseeing all aspects of market risk, liquidity risk, pricing 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 the ERC to the Risk and Compliance Committee.

Customer and Conduct Committee ('CCC')

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

The CCC is responsible for overseeing the management of the Group's conduct risk and regulatory compliance risk (including financial crime risk), so that they are managed within appetite and customers receive good outcomes.

The CCC considers conduct risk information such as: details of conduct or regulatory compliance breaches; systems and procedures for delivering good outcomes to customers (such as in relation to customer vulnerability); the product governance framework; and monitoring reports. It also considers product reviews from a customer perspective. It is responsible for overseeing adherence to FCA Consumer Duty principles and outcomes through robust project oversight and the review and challenge of the annual Consumer Duty report prior to escalation to the Board.

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 and Compliance, 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 Credit 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 to the Board or the Risk and Compliance Committee. The Credit Committee also operates the Group's most senior lending mandate.

Operational Risk Committee ('ORC')

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

The ORC is responsible for overseeing the Group's operational risk and resilience arrangements, including those systems and controls intended to counter the risk that the Group might be used to further financial crime. Although the CCC is the prime oversight body relating to Financial Crime, the ORC retain oversight through the annual review of the Money Laundering Reporting Officer report, and of fraud-related risk events, given that financial crime is an Operational Risk category.

The remit of the ORC also includes risks arising from personnel, technology and environmental matters within the business, including those arising from the use of third parties. The ORC 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 risk appetite on an on-going basis.

B8.3 Risk management culture

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

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

Enhancing and embedding the formal approach to measuring and monitoring the Group's risk culture has been a priority activity throughout the financial year, and the success in achieving this was evident through the results of the employee engagement survey in June. It was pleasing that 100% of respondents indicated that they clearly understood their risk management responsibilities and considered risk in their day-to-day roles, while 95% stated that management actions consistently aligned to their communications on risk management.

Various initiatives have also been undertaken during the year underlining the importance of ensuring that the risk culture continues to support the Group's approach to its management of risk. These included:

- Regular reporting to risk committees on the Group's risk culture based on four agreed components: Leadership and Direction; Individual Commitment; Joint Ownership; and Governance, together with clear measures to evidence these
- Undertaking of an annual risk maturity assessment across each area of the business that includes an evaluation of each area's perception of risk and how its risk management activities are viewed and put into practice
- Strengthening the community of risk champions, who represent each of the business areas, to promote and embed a risk-aware culture across the Group

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

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

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

B8.4 Risk management framework

Introduction

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

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

During the past twelve months the planned programme of work to enhance the risk management approach and further strengthen the ERMF to support the Group's strategic aspirations has been completed. Key achievements during the year have included a refresh of all principal risk policies, ensuring they remain relevant and reflect the minimum controls expected. Particular focus has been on enhancing the Conduct risk policy to ensure it fully aligns to the expectations under the new FCA Consumer Duty.

Further development and refinement of risk appetite measures and metrics remains a key priority across all risk types and reporting has been enhanced to reflect this. Given the work already undertaken over the last two years on developing the framework, the present focus is on ensuring that the ERMF operates in line with expectations, through a more structured programme of assurance across all risk types and components of the framework. Delivery of these enhancements has been facilitated by further embedding the Group's risk culture, effective stakeholder management, targeted education, and a collaborative approach between business areas and the Risk and Compliance function which continues to work well.

Priorities for the next twelve months include focussing on the alignment of business areas' risk management and control activities to the core control requirements set out in the Group's risk policies including broadening the coverage of first line control testing around these core controls. A key objective will be completing a comprehensive assessment of the appropriateness of the Group's risk management software, to ensure it can continue to fully support its risk management capability.

Enterprise risk management framework

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

- Define a strategy to support the Group's attitude to risk, including outlining the approach taken to setting qualitative statements and quantitative metrics to define and assess the Group's appetite and tolerance for risk across its principal risk exposures
- Establish a consistent risk taxonomy, describing the principal risk categories and the more granular aspects of each of these risks
- Promote an appropriate risk culture across the Group, ensuring that risk is considered as part of all key strategic and business decision making
- Establish standards for the consistent identification, assessment, treatment, monitoring and reporting of risk exposure and loss experience
- Promote risk management techniques to proactively reduce the frequency and severity of risk events, driving control improvements where necessary
- Facilitate adherence to regulatory requirements, including threshold conditions, capital standards and support the regulatory requirements associated with the ICAAP, the ILAAP and the Recovery Plan

- Provide senior management and relevant committees with risk reporting that is relevant and appropriate, enabling timely action to be taken in response
- Define risk policies which align to the Group's principal risks and identify the minimum control requirements and key indicators to manage and measure 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:

Three lines of defence

Line 1	Line 2	Line 3
Operational and support areas that own and manage risk within agreed limits	Risk and Compliance function designing, implementing and overseeing the ERMF and providing support and challenge	Internal Audit function independently assessing effectiveness of risk management

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

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

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

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

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

Risk appetite framework

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

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

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

The Group has developed a tiered approach to the setting and monitoring of risk appetite. A set of board-owned (Level 1) metrics has been established. These are monitored by the Risk and Compliance Committee on an ongoing basis and any threshold breaches in respect of these are immediately escalated to the Board. These board-level metrics are underpinned by more extensive executive-level metrics, which are reportable to the ERC and escalated to the Risk and Compliance Committee when appropriate.

Risk appetite is central to the effective implementation and operation of the ERMF. The risk appetite framework ensures that:

- All principal risks have strategically-aligned qualitative risk appetite statements and quantitative measures
- There are appropriate board and executive level risk appetite metrics monitored on an ongoing basis
- Calibration of appetite thresholds is appropriate and drives 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. Further information on these risks is provided in the Group's Pillar III report, published on the Group's 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 classification of its principal risks, approved by the Board in the year.

Capital risk	**Liquidity and funding risk**	**Market risk**	**Credit risk**	**Model risk**
Reputational risk	**Strategic risk**	**Climate risk**	**Conduct risk**	**Operational risk**

The principal risks remain consistent from the previous financial year.

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

△ **Risk increasing** ▽ **Risk decreasing** ◇ **Risk stable**

Capital Risk

Description	Mitigation	Year-on-year change
The Group faces the risk that it maintains insufficient capital to operate effectively, including meeting minimum regulatory requirements, operating within board-approved risk appetite, and supporting its strategic goals. The Bank of England have yet to publish their final policy for the implementation of the Basel 3.1 standards in the UK, which is currently intended to be effective from 1 July 2025.	A robust process exists over reporting capital metrics, both internally and to the PRA, with a comprehensive annual ICAAP assessment including all material capital risks. An internal capital buffer is maintained in excess of minimum regulatory requirements to protect against unexpected losses. The Group continues to engage with the PRA in respect of its application for the accreditation of its IRB approach to buy-to-let credit risk for capital adequacy purposes, responding to feedback as the regulator proceeds with its internal assessment process. The Bank of England Basel 3.1 proposals largely follow the core Basel proposals and, as such, are materially in line with expectations. The Consultation Paper also highlighted enhancements to the IRB accreditation process, which would have a favourable impact on the Group if retained in the ultimate rules.	◇ While there has been little impact on the overall capital risk framework in the financial year, the global and UK economic outlook has continued to be subject to the pressures which arose following Russia's intervention in Ukraine, although these have not worsened significantly over the period. Although downside risks will present headwinds, the Group's strengthening profitability and the progress made in balance sheet management mean that capital ratios remain strong with considerable headroom over requirements. This, in turn, provides significant capacity to support lending to households and businesses.

Further information about the Group's management of capital, including quantitative capital measures, is set out in note 61 to the accounts.

Liquidity and Funding Risk

Description	Mitigation	Year-on-year change
The Group is exposed to the risk that it has insufficient funds to meet its obligations as they fall due. Retail deposit-taking is central to the Group's funding plans and therefore changes in market conditions could impact the ability of the business to maintain the level of funding required to sustain normal business activity.	The Group maintains a diversified range of both retail and wholesale funding sources to cover current and future business requirements. 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. The Board, through the delegated authority provided to the ALCO, sets limits for the level, composition and maturity of funding and liquidity resources. The Group's holdings of its own mortgage backed securities, together with assets pre-positioned with the Bank of England, mean that it has ready access to wholesale funding or liquidity if required.	▽ The Group remains well placed to access funding from a wide range of sources to meet its future funding requirements. Access to the retail savings market has been effective during the year through both direct and intermediated deposit platform distribution channels, resulting in increased levels of liquid assets being held, and higher LCR and OLAR levels year-on-year. Despite a number of market disruptions during the year, including a number of bank failures in March and April 2023, liquidity risk is considered to have reduced from its level at the start of the year, when it was elevated by the fallout from the September 2022 'mini-budget'.

More detailed information on the Group's liquidity risk profile, including quantitative data, is set out in note 64 to the accounts.

Market Risk

Description	Mitigation	Year-on-year change
The Group is exposed to the risk that changes in interest rates at which it lends and those at which it borrows may adversely affect its net interest income and profitability.	This risk is managed within board-approved risk appetite limits with comprehensive treasury polices in place to ensure that the risks posed by changes and mismatches in interest rates are effectively managed. Day-to-day management of interest rate risk within board-approved limits is the responsibility of the treasury function, 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 mismatches.	◇ While the rise in the Bank of England base rate to its highest level in over a decade has increased volatility in pricing levels on both the asset and liability sides of the balance sheet, requiring particular focus on risk management in this area, markets were generally more stable at 30 September 2023 than a year earlier. The Group's overall market risk profile, relative to its balance sheet, has remained broadly similar to that at the previous year end, and therefore associated risk levels remain generally stable compared to the previous period end.

More detailed information on the Group's management of market risk is set out in note 65 to the accounts.

Credit Risk

Description	Mitigation	Year-on-year change
Credit risk elements which could expose the Group to the risk of unexpected material losses include: • Customer risks through failure to screen potential borrowers, or to manage repayments • Concentration risk in credit portfolios through an uneven distribution of exposures of borrowers, asset classes, sectors or geographies • Reduction in the 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 credit risk 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 develop opportunities to diversify the range of its activities and income streams, consistent with its strategic objective of operating as a prudent, risk-focussed specialist lender. The majority of the Group's loans by value continue to be secured against UK residential property at conservative loan-to-value levels. The primary collateral therefore forms part of a highly mature, 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.	▲ Higher interest rates, rising costs, and resource shortages have been a key feature of the lending environment during the last twelve months. However, the Group's prudent credit policies combined with consistently high lending standards, have ensured that the impact on customer loan repayments has been modest so far. Arrears remain favourable compared with historical levels, with impacts being generally confined to early arrears states as borrowers adjust their cashflows to accommodate the higher costs. Tracking of customer risk profiles across lending areas shows little indication of stress, and asset equity coverage continues to provide significant credit risk mitigation. Whilst current loan performance remains robust, the Group continues to monitor the potential future impacts of the increased interest rate environment, house price movements and higher costs of living and doing business, and has reviewed and adjusted credit policy and affordability models accordingly. As a result of these broader economic movements, in particular the rapid increase in market interest rates, the credit risk profile is considered to have increased compared to 30 September 2022.

More information on the Group's retail and wholesale credit risk profiles, including quantitative credit measures, is set out in note 63 to the accounts.

Model Risk

Description	Mitigation	Year-on-year change
Models are used across the Group to inform financial decision making and hence it is imperative that the environment in which the models are designed, implemented and operate is subject to appropriate rigour.	A robust framework of management and governance is in place to manage the risks associated with the use of internally developed models. This includes the MRC which oversees the development, implementation and ongoing monitoring of models across the Group. The Model Risk Management Framework provides a structured and disciplined approach to the management of model risk. It includes clear development, implementation and ongoing oversight principles, together with requirements for independent validation based on model materiality criteria. PRA Supervisory Statement SS 1/23, which addresses model risk management principles for banks and applies to firms with permission to use internal models to calculate regulatory capital, was published in the year. Firms have twelve months from the grant of such permissions to comply with the expectations of the SS. The Group has begun a programme of work to ensure compliance with the principles in advance of the Group receiving IRB accreditation, and is well-placed to meet the requirements within the timeframes required.	◇ 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 and the Group's continuing investment in this area, model risk remains within appetite and the outlook remains stable.

Information on the Group's use of models in its impairment provision calculations is given in note 21 to the accounts.

Reputational Risk

Description	Mitigation	Year-on-year change
Maintenance of a strong reputation across all business lines, operational activities, and the conduct of employees and associated third parties is core to the Group's philosophy. Detrimental reputational impacts may result from internal actions and external events, as a consequence of the crystallisation of other principal risks, or through failure to safeguard the integrity of the Group's brand or meet external expectations in its business practices.	The reputational risk policy supports reputational risk management across the Group. Reputational issues are considered at Board and ExCo level and, where relevant, will be identified, reviewed and escalated through risk committee governance. The reputational impacts of changes to strategy, pricing, people, processes or third-party relationships are explicitly considered in the decision-making process and are reviewed by the Director of External Relations. The Group will not undertake any activity it considers might be damaging to its reputation. Employees adhere to defined standards of conduct, encompassing policies, procedures and ways of working. These are defined in the Group's Code of Conduct. The Group has an experienced External Relations function which manages all Group communications and ensures that the reputational profile of the Group is protected. Reputational risk is monitored through tracking traditional and social media coverage, net promoter scores, review platforms and regular customer surveys. Any 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 threats to its reputation can emanate from many sources, the Group remains well-placed to respond quickly and efficiently to any potential reputational issue.

Strategic Risk

Description	Mitigation	Year-on-year change
The Group's strategy as a specialist lender is key to its operating model and business planning. However, there is a risk that changes to its business model, or macroeconomic, geopolitical, regulatory, competitive or other external 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.	Whilst the political and economic landscape has stabilised somewhat over the year, there remains some uncertainty around the performance of the UK economy in both the near and longer term. Material increases in the cost of living, interest rates and businesses' input costs, continue to put pressure on household and corporate disposable income. The full impacts of this uncertainty, coupled with implications of the UK's new trading relationships post-Brexit, are still to be fully determined, as are those of any potential change of political direction, with a UK general election due before January 2025. Despite the wider economic challenges, the Group has remained resilient throughout the year, and has made strong progress in meeting the strategic targets in its corporate plan. In particular it has continued to make significant progress with its digitalisation programme which remains a key priority. Notwithstanding the apparently more stable economic situation and its continuing strong activity levels, the Group recognises that the full impact of interest rate rises is unlikely to be immediate, with the potential for further economic and property market disruption into the new financial year presenting a further risk to the execution of the Group's strategy.

Climate Risk

Description	Mitigation	Year-on-year change
The Group considers the impact of climate change either directly on the Group or indirectly through its third-party relationships or its lending activities. This includes both the transitional risk to its strategy and profile through external measures to progress to a low-carbon environment, and any physical risks arising from changes to the natural environment that could impact the calculation and valuation of assets and liabilities.	The Group proactively manages physical risk and has specific underwriting policies aimed at the mitigation of, for example, risks associated with flooding, coastal erosion and subsidence. 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 Group continues to actively engage with public forums such as Bankers for Net Zero ('B4NZ'), the Mission Zero Coalition and UK Finance to support the development of future policy and regulation. Ongoing and enhanced climate change analysis, supported by scenario testing, continues to be further embedded throughout the business to inform longer term strategic planning. The Sustainability Committee provides comprehensive oversight of climate initiatives across each business line, whilst the Credit Committee monitors the performance of mortgaged property collateral against EPC data.	The Group has continued to make progress on its climate change agenda, with activity focused on enhancing its financed emissions balance sheet, continued public policy advocacy through B4NZ, and enhancing its approach to climate change scenario analysis. The levels of regulatory scrutiny and public interest in this area continue to be high. However, the Group's approach has matured in the year, and a proportionate approach to managing the risks and opportunities associated with climate change has been maintained. Although there is significant uncertainty in respect of the direction of government policy and regulation in this area, the Group's scenario analysis assessment indicates that its exposure to climate change impacts is being managed appropriately and does not pose it a significant or increasing risk.

Information on the Group's management of climate-related risks is set out in Section A6.4 in accordance with the recommendations of the TCFD.

Conduct Risk

Description	Mitigation	Year-on-year change
The commitment to delivering good customer outcomes is at the heart of the Group's culture and strategy. Conduct risk arises where the culture and behaviours fail to promote the customer's best interests and avoid foreseeable consumer harm, resulting in poor outcomes for the customer.	The management of conduct risk within the Group is tailored to the specific product and customer type and includes dedicated quality and control teams which validate process adherence, the delivery of good customer outcomes, and the appropriate management of those customers showing signs of vulnerability, including those in financial difficulties. During the year work was undertaken to review and enhance the Group's management of conduct risk in preparation for the introduction of the FCA Consumer Duty in the year. All employees are required to undertake conduct risk related training. The Group's approach to employee remuneration means that very few employees are included in financial incentive schemes. The incentive scheme framework is reviewed by the Remuneration Committee and the CCC annually and individual schemes require approval from the Chief People Officer, CFO and Conduct and Compliance Director before implementation.	Whilst the Group is well-placed to provide appropriate support, the current economic environment, including the cost of living crisis, increasing input costs for businesses, and rising interest rates and mortgage payments, is likely to place strain on some of the Group's customers. This will potentially increase the risk of customer vulnerabilities, particularly in relation to financial resilience. The introduction of the FCA's Consumer Duty also raises the expectations of firms to proactively seek to prevent causes of foreseeable harm, and to identify harm when it occurs.

Operational Risk

Description

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 will be exacerbated through periods of transformation and / or stress.

Mitigation

The Group has an established operational risk framework which enables timely and accurate analysis of operational risk exposures and drives accountability and remedial actions where issues are identified.

Operational risk is managed 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 Information Technology, Data Protection, Change Management, Procurement, 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 that the Group is well-protected in the face of the evolution of cyber threats particularly as it increasingly moves to cloud-based infrastructure and looks to harness digital capability as part of its IT roadmap.

Whilst the Group continues to drive through strategic transformation across all its lending lines, there remains a continuing focus on ensuring that these changes do not compromise overall resilience. A well-embedded change framework ensures that changes are managed in a controlled way. Operational resilience remains a key driver with consideration at all stages of the project lifecycle.

The Group relies on third party providers for a number of key services including in support of its savings offering, and in respect of material IT services. The robust oversight of third parties is also seen as critical to overall resilience.

The Group continues to focus on building an engaged and highly skilled workforce through the delivery of effective reward, succession planning, recruitment, development and retention strategies. In addition, the Group remains committed to the wellbeing of its employees, and its employee networks play a crucial role in ensuring leadership understand and can act on employee feedback.

Year-on-year change

The Group does not consider that it has a higher than average likelihood of being subject to a cyber threat, however the general threat level has significantly increased following the impacts of the conflict in Ukraine. Given the pace at which the external cyber threat level continues to evolve, the Group remains committed to investment in this area on a long-term basis, focussing on key areas such as data loss prevention and vulnerability management. Ongoing assessment of, and response to, the Group's cyber profile remains integral to successful execution of its overall strategy.

Recruitment and retention in some specialisms remain challenging given wider skill shortages across the industry. Changing working patterns and economic uncertainty continue to influence the recruitment market. More generally, impacts of the war in Ukraine and the wider cost of living challenges have further increased potential risk exposures across key operational risk categories such as financial crime.

Regulatory compliance expectations continue to rise, and the Group is committed to ensuring that it remains compliant in its operational activities. There is potential that as expectations increase, gaps may be identified which will need addressing to reduce inherent operational risk exposures.

The Group continues to make strong progress on its strategic transformation programme, which it anticipates will benefit operational risk management in the longer term. However, it is recognised that significant change can exacerbate operational strains in the short term. Potential for such issues is being carefully managed through robust governance and oversight.

Whilst the Group continues to maintain a robust control environment and operational risk related losses remain at historically low levels, the present operating environment poses considerable challenges which increase inherent operational risks.

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 Rules and the Disclosure Guidance and Transparency 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 their 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 Zoe Howorth who was appointed as a director on 1 June 2023.

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 2023.

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, if appropriate.

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

Directors' powers and appointment of directors

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

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

Under Article 83 of the Articles, all directors are required to submit themselves for reappointment annually, in accordance with the Code. Accordingly, all current directors will retire and seek reappointment at the AGM, in March 2024.

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

Directors' indemnity and insurance

Under Article 159 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 all directors 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 45 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 59 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 £11.5 million and to make market purchases of up to 23.0 million £1 ordinary shares. These authorities expire at the conclusion of the forthcoming AGM on 6 March 2024 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 1 March 2023 enables it to purchase its own ordinary shares up to a limit of 10% of its issued share capital, excluding treasury shares (the Company's own shares already purchased by it but not cancelled).

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 ordinary 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. These shares will be initially held in treasury. Shares held as treasury shares can in the future be cancelled, re-sold or used to provide shares for employee share schemes.

On 14 June 2022 the Group announced an extension of its share buy-back programme originally announced on 7 December 2021 to up to £75.0 million which was completed in the current year. The reasons for this purchase were set out in section 3.3 of the Half Year Report for the six months ended 31 March 2022. On 6 December 2022 a further buy-back programme of £50.0 million was announced. The reasons for this purchase were set out in section 3.3 of the preliminary results announcement for the year ended 30 September 2022. This programme was extended to £100.0 million on 6 June 2023 for reasons set out in section 4.3 of the Half Year Financial Report for the six months ended 31 March 2023, published on that day. During the year 20,721,957 £1 ordinary shares (2022: 13,011,285) having an aggregate nominal value of £20,721,957 (2022: £13,011,285), were purchased under these programmes and initially held as treasury shares. Total consideration paid in the year was £111.5 million, including costs (2022: £66.9 million). This programme was completed on 22 September 2023.

On 1 June 2023, 12,870,044 ordinary shares previously held in treasury were cancelled, leaving a balance held in treasury of 2,000,000 shares. The cancelled shares had a nominal value of £12,870,044 and represented 5.68% of the issued share capital excluding treasury shares at that time.

During the year 1,418,430 shares held in treasury were transferred to the holders of maturing options granted under the Group's Sharesave share option plan (2022: nil). Consideration received in respect of these shares was £4.0 million (2022: nil).

The number of treasury shares held at 30 September 2023 was 10,074,002 (2022: 3,640,519), representing 4.61% of the issued share capital excluding treasury shares (2022: 1.53%). The maximum holding of treasury shares during the year was 14,870,044 (2022: 12,100,834) representing 6.56% of the issued share capital excluding treasury shares at that time (2022: 4.83%).

Dividends

An interim dividend of 11.0 pence per share was paid during the year (2022: 9.4 pence per share).

The directors recommend a final dividend of 26.4 pence per share (2022: 19.2 pence per share) which would give a total dividend for the year of 37.4 pence per share (2022: 28.6 pence per share) subject to approval at the forthcoming AGM.

Capital reorganisation

On 28 March 2023 the High Court confirmed the cancellation of Company's capital redemption reserve, following approval at the AGM on 1 March 2023. This reserve had arisen on the cancellation of ordinary shares which had been purchased in the market and held in treasury. The £71.8 million balance outstanding on the capital redemption reserve was transferred to the profit and loss account and included within distributable reserves.

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 2023.

Shareholder	% Held	Notification date
Liontrust Investment Partners LLP	**5.07**	21/09/2020
Royal London Asset Management	**5.04**	26/04/2023
Dimensional Fund Advisors LP	**5.00**	21/07/2021
Franklin Templeton Fund Management Limited	**4.96**	10/01/2022

On 1 November 2022, Pendal Group Limited notified the Company that their interest had dropped below 5%.

On 15 November 2022, Janus Henderson Group PLC notified the Company that their holding had reduced below 5%.

The percentages quoted above were calculated by reference to the total voting rights ('TVR') at the relevant date.

As at 5 December 2023, 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 alter or terminate. These include certain insurance policies and employee share plans.

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

Research and development

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

Political expenditure

During the year ended 30 September 2023 no political donations were made by any Group company (2022: £nil).

Auditors

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

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

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

Annual General Meeting

The AGM of the Company will take place on 6 March 2024 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.

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 47).

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 (2022: 2.5 million). As the shares included in these arrangements are held on the consolidated balance sheet, this has no effect on the amounts reported by the Group.

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

Details of the shares held by the trust are set out in note 47 and details of the share-based remuneration arrangements are given in note 59.

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 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 are 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 is set out in note 62 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 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 2023, 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.

Ciara Murphy

Company Secretary

6 December 2023

B10. Responsibility statement

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, including the Companies Act 2006 (the 'Companies Act'), 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 2023, that law requires the directors to prepare the consolidated financial statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act and they have also elected to prepare the separate financial statements of the Company on the same basis.

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

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

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

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

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

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

In accordance with Disclosure Guidance and Transparency Rule ("DTR") 4.1.16R, the financial statements will form part of the annual financial report prepared in accordance with DTR 4.1.17R and 4.1.18R. The auditor's report on these financial statements provides no assurance over whether the annual financial report has been prepared in accordance with those requirements.

Confirmation by the Board of Directors

The Board of Directors currently comprises:

R D East (Chair of the Board)	G H Yorston (Non-executive director)
N S Terrington (CEO)	A C M Morris (Non-executive director)
R J Woodman (CFO)	P A Hill (Non-executive director)
H R Tudor Non-executive director	T P Davda (Non-executive director)
B A Ridpath (Non-executive director)	Z L Howorth (Non-executive director)

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

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

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

Signed on behalf of the Board.

Ciara Murphy

Company Secretary

6 December 2023