Paragon Banking Group PLC

Annual Report 2024

For the year ended 30 September 2024

CAUTIONARY STATEMENT: Sections of this Annual Report, including but not limited to the Directors' Report, the Strategic Report and the Directors' Remuneration Report may contain forward-looking statements with respect to certain of the plans and current goals and expectations relating to the future financial condition, business performance and results of the Group. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as 'anticipate', 'estimate', 'expect', 'intend', 'will', 'project', 'plan', 'believe', 'target' and other words and terms of similar meaning in connection with any discussion of future operating or financial performance but are not the exclusive means of identifying such statements. These have been made by the directors in good faith using information available up to the date on which they approved this report, and the Group undertakes no obligation to update or revise these forward-looking statements for any reason other than in accordance with its legal or regulatory obligations (including under the UK Market Abuse Regulation, UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ('FCA')).

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the Group and depend upon circumstances that may or may not occur in the future that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. There are also a number of factors that could cause actual future financial conditions, business performance, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. As a result, you are cautioned not to place reliance on such forward-looking statements as a prediction of actual results or otherwise.

These factors include, but are not limited to: material impacts related to foreign exchange fluctuations; macro-economic activity; the impact of outbreaks, epidemics or pandemics, and the extent of their impact on overall demand for the Group's services and products; potential changes in dividend policy; changes in government policy and regulation (including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which the Group operates) and the consequences thereof; actions by the Group's competitors or counterparties; third party, fraud and reputational risks inherent in its operations; the UK's exit from the EU; unstable UK and global economic conditions and market volatility, including currency and interest rate fluctuations and inflation or deflation; the risk of a global economic downturn; social unrest; acts of terrorism and other acts of hostility or war and responses to, and consequences of those acts; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; general changes in government policy that may significantly influence investor decisions (including, without limitation, actions taken in support of managing and mitigating climate change and in supporting the global transition to net zero carbon emissions); societal shifts in customer financing and investment needs; and other risks inherent to the industries in which the Group operates.

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

Contents

Financial and operating highlights

Our purpose is to support the **ambitions** of the **people** and **businesses** of the UK by delivering **specialist financial services**

Find out how we are supporting our customers' ambitions on pages 12 to 13

Strong operational and financial performance

£15.7 billion
(30 September 2023: £14.9 billion)
Total loans and advances to customers

Strong new business pipeline

Buy-to-let mortgages	**£0.88 billion (up 48.2%)** (30 September 2023: £0.59 billion)
Development finance	**£0.20 billion (up 31.0%)** (30 September 2023: £0.15 billion)

£292.7 million
(2023: £277.6 million)
Underlying profit before tax increased 5.4%

20.3%
(2023: 20.2%)
Underlying return on tangible equity

£159.2 million
Total capital returned to shareholders in 2024

Trustpilot **4.7/5.0**
Combined Trustpilot rating awarded by savings customers and buy-to-let customers with newly originated loans
1 October 2023 to 30 September 2024 (4,833 responses)

Ordinary dividend
40.4 pence per share +8.0%

Share buy-back
£76.2 million[1]

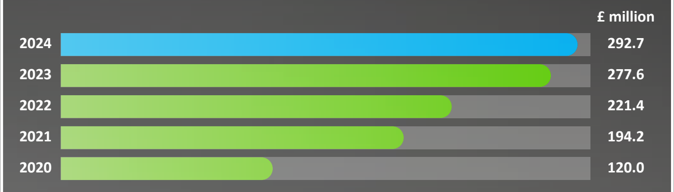
[1]£76.2 million completed by 30 September 2024, £16.3 million completed post year end

New mortgage platform launched

New, digital mortgage application platform featuring real-time data integration from trusted sources and faster decisions-in-principle.

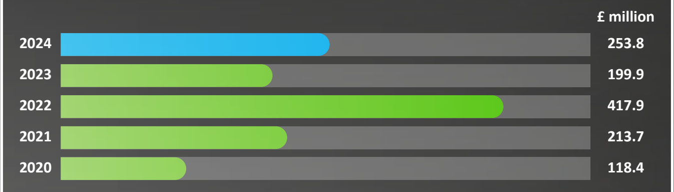
Underlying profit before tax

£292.7 million 5.4% higher (2023: £277.6 million)



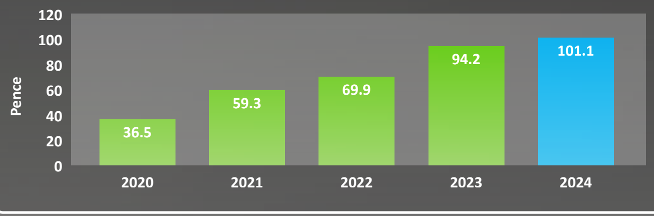
Profit before tax

£253.8 million 27.0% higher (2023: £199.9 million)



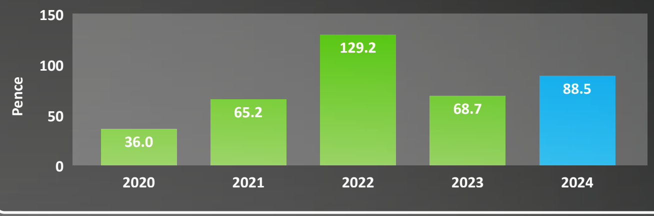
Underlying basic earnings per share

101.1 pence 7.3% higher (2023: 94.2 pence)



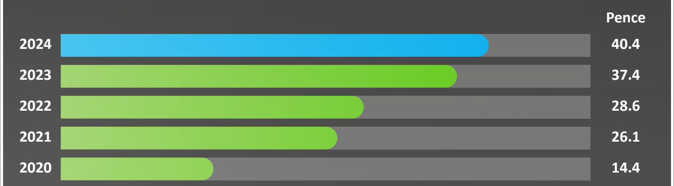
Basic earnings per share

88.5 pence 28.8% higher (2023: 68.7 pence)



Dividend per share

40.4 pence 8.0% higher (2023: 37.4 pence)

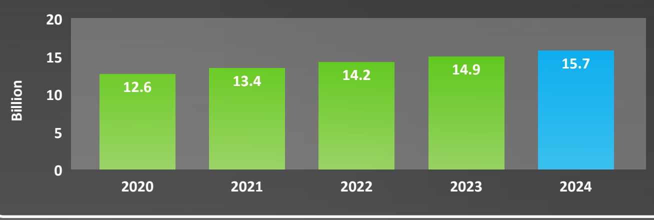


Capital – CET1 Ratio

14.2% Stable in the year (2023: 15.5%)

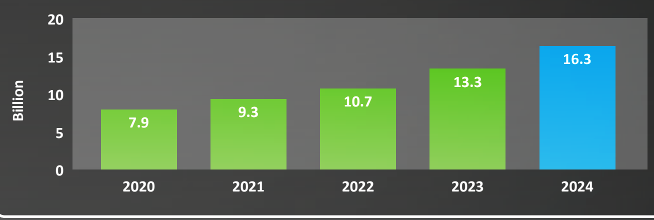
Total loans to customers

£15.7 billion 5.6% higher (2023: £14.9 billion)



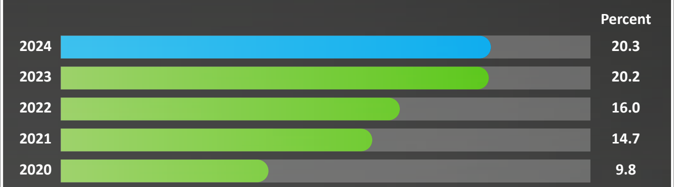
Retail deposits

£16.3 billion 22.9% higher (2023: £13.3 billion)



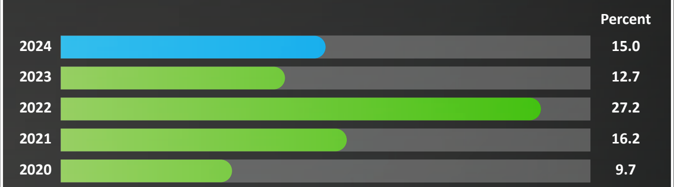
Underlying return on tangible equity

20.3% (2023: 20.2%)



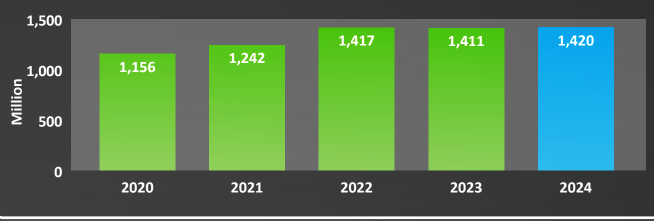
Return on tangible equity ('RoTE')

15.0% (2023: 12.7%)



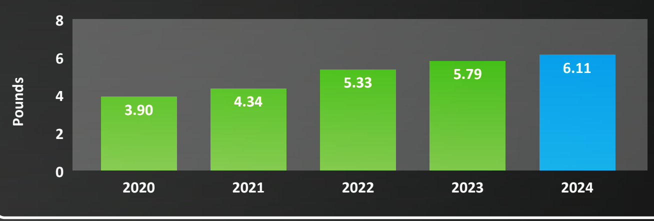
Equity

£1,419.5m (2023: £1,410.6m)



Tangible net assets per share

£6.11 (2023: £5.79)



The underlying basis excludes fair value postings arising from hedging activities, but not qualifying for hedge accounting. The other exclusions from underlying results relate principally to acquisitions and significant asset sales in prior periods, which do not form part of the day-to-day activities of the Group, and which have impacted on the reported results for the year concerned.

The calculation of return on tangible equity is shown in note 61b. The derivation of underlying profit before taxation ('underlying profit') and other underlying measures is described in Appendix A.

A.

Strategic Report

The business and its performance in the year

This section includes

A1. Chair of the Board's introduction

Dear Shareholder

I am pleased to report that Paragon has delivered another good year of performance and strategic progress. We have paid close attention to shifts in the external environment and responded well to the challenges and opportunities these have presented. There are now clear signs of more positive sentiment with inflation having fallen materially and interest rates being reduced although at a more modest rate than expected. Economic growth has strengthened during the year but the scope for growth above current trends looks modest, without regulatory change and increased investment, given some of the structural challenges in the UK and the geopolitical factors which are unpredictable and difficult to plan for.

The last year has been one of continued and sustainable growth for Paragon. We have increased our lending by 5.6% to £15.7 billion and our deposits by 22.9% to £16.3 billion. In total, we provide finance to over 90,000 customers and a good home for the savings of over 300,000 people. Our customer satisfaction levels are high as measured by external research and by our combined Trustpilot rating of 4.7 / 5.0. Our employee engagement remains strong and culture positive as demonstrated by recent surveys, low employee attrition and the results of sampling employees' views.

Our purpose continues to be to support the ambitions of the people and businesses of the UK by delivering specialist financial services. This purpose is reflected in all our activities and investments, and in the values that underpin how we operate. In the challenging backdrop of recent years, we have remained relentlessly focused on our purpose, putting our strategies into action and on conservative management of our business such that we deliver sustainable returns for our shareholders.

This annual report sets out our progress in fulfilling this purpose, the positive steps we have taken towards meeting our strategic goals, and the positive results we have delivered in the year. I hope you will find it interesting and useful.

Our businesses

Our mortgage lending supports landlords renting over 70,000 properties into the private rental sector. Our specialist focus is on supporting professional landlords who operate portfolios of properties, and this gives us a deep understanding of the sector. Our mortgage book grew by 4.0% to £13.42 billion in the year. This includes retention of a high proportion of those customers whose mortgages reached the end of their initial fixed rate period in the year.

These specialist landlords provide much needed supply of property to those who rent their home. The sector has been subject to increased regulation and higher interest rates in recent years and this, along with short supply and high demand, has driven rents higher. For property investors, the balance of regulation and investment return needs to remain appropriate as otherwise supply will reduce as funds are invested elsewhere to the long-term detriment of those wishing to rent their home.

Diversification of our lending business is one of our key strategic objectives, and I am pleased that our commercial lending businesses have continued to grow, with the loan book increasing 16.1% in the year to £2.29 billion. We operate in selected sectors where our specialist knowledge helps us to support our customers' business objectives, while underwriting assets at appropriate risk and return. We have seen strong demand across all of our business lines, especially as the year progressed, closing the period with healthy lending pipelines which will support activity into the new year.

Our savings business has also grown strongly with deposits increasing by 22.9% to £16.3 billion as we continued to develop our range of deposit products, while offering attractive pricing and good service to savers. As a result, our lending businesses are now predominantly funded by our savings business, while at the same time we have strengthened our access to contingent funding sources.

The long-term digitalisation strategy, which is key to the delivery of our purpose, continued to make strong progress in the year. We have continued to invest in our technology platforms across our businesses improving efficiency and productivity, and enhancing service to both customers and business introducers.

During the year I was particularly pleased to see the completion of two major projects, with the transfer of our principal administration systems to a cloud-based solution and with the launch of our thoroughly reengineered mortgage application system to the broker community towards the end of the year. This represents a major enhancement to the services we can provide, and I congratulate all our people who have been part of its long-term development.

Our purpose and strategic objectives, which the Board reapproved in the year, have remained a constant through the changes in the UK's economic, regulatory and political environment of recent years, and continue to provide the framework which guides the business and ensures the delivery of positive results for our stakeholders.

The Group's business model and purpose are described more fully in Section A2

Our performance

During the year, we have been particularly focused on the delivery of our investments in digitalisation and in embedding the FCA Consumer Duty into our processes, on both of which we have made good progress. At the same time, we have maintained our concentration on doing the basics of any banking business well, including careful management of risk, particularly credit risk, given the impact of higher interest rates on borrowing customers, management of interest margins during a period when interest rates have continued to be volatile, the maintenance of strong liquidity, and ensuring our capital allocations optimise returns for shareholders. We have kept an intense focus on reducing complexity and management of costs, leading to a reduction in the number of posts in the year and, sadly, a small number of redundancies.

This focus has resulted in the delivery of an increase in underlying profit by 5.4% to £292.7 million (2023: £277.6 million), earnings per share on an underlying basis increasing by 7.3% to 101.1 pence per share (2023: 94.2 pence) and an underlying return on equity of 20.3% (2023: 20.2%).

On the statutory basis, which includes the impact of fair value fluctuations from hedging, profit before tax increased by 27.0% to £253.8 million (2023: £199.9 million), earnings per share increased by 22.8% to 88.5 pence per share (2023: 68.7 pence) and return on equity was 15.0% (2023: 12.7%).

Regulatory capital has remained strong, with a CET1 ratio of 14.2% (2023: 15.5%), and we have continued to make progress with our IRB application which will support capital allocation decisions in the future.

This performance has allowed us to pay an interim dividend of 13.2 pence per share during the year and declare a final dividend of 27.2 pence per share. This represents a total dividend for the year of 40.4 pence per share, with the dividend covered approximately 2.5 times by underlying earnings, in line with our policy. The Board has also authorised a further share buy-back programme of up to £50.0 million, building on the share buy-backs of up to £100.0 million authorised in the last year.

Last year, I highlighted a frustration about our historical performance not being reflected in the price of our shares and the challenges of the UK equities market. I am pleased to say the share price has increased to better reflect the underlying performance of the business, rising from 492.0 pence per share to 777.5 pence per share during the year. We continue to support the initiatives in respect of the UK equities market which we regard as a critical underpinning to the UK economy.

The financial results and operational performance are reviewed in Section A3 and A4

Sustainability and citizenship

As a business we have continued to focus on a wide range of sustainability issues over the year, particularly those relating to the welfare of our employees and the provision of good outcomes to our customers. I regard the threats posed by climate change as some of the most serious sustainability challenges faced by us, or any other business.

We have set a target of reaching net zero for emissions attributable to our own operations by 2030, and, as part of our roadmap for reaching that goal, we have consolidated the number of office properties that we occupy and we will begin a major upgrade of our head office premises in Solihull in the new financial year to improve its EPC rating.

Our lending businesses finance a range of 'green' assets including battery electric vehicles and electric refuse collection vehicles for local authorities, while supporting buy-to-let landlords investing in more energy efficient properties or refurbishing their existing portfolios to improve their EPC, and providing funding to property developers who wish to construct higher EPC rated homes.

As tangible examples of the role we can play, the Green Homes Initiative in our development finance business has so far provided £220.7 million of funding towards the development of properties qualifying for an EPC grade of A, the most energy-efficient, while over half of our lending to buy-to-let landlords in the year (53.3%) was on properties with an EPC of C or better, the benchmark for energy-efficiency used by the UK Government. At 53.4%, over half of the properties we finance for landlords would be considered energy-efficient on this basis, compared to 49.9% last year.

The poor energy efficiency of the UK's housing stock will only be resolved by building energy-efficient properties and upgrading existing ones, coupled with continued decarbonisation of the power grid. Whilst we should all acknowledge that progress is being made, there still is much to do. As a business we recognise the imperative for financial institutions to play a prominent role in supporting a sustainable future and we are active in several industry initiatives to promote engagement with this agenda.

However, as a global community, we are at the beginning of what is needed to tackle climate change. The next steps will require bravery and consistency from governments, together with policies that feel economically rational and represent attractive options for consumers and businesses to undertake or invest in, particularly when they have many other demanding priorities. This is not easy to do, and does not lend itself to short-term decision-making time horizons, but is essential if future generations are not to look back and judge us as being slow to act. We are encouraged by the early steps being taken by the new Government, particularly by recent steps to progress decarbonising the electricity grid.

Sustainability, social responsibility and citizenship issues are discussed in Section A6

Governance

At the end of the previous financial year, I was reassured by the positive outcome of the board performance review carried out by an independent third party, and this year the Board has worked to address the few opportunities found for improvement. Our internal review this year has confirmed the Board continues to operate effectively, and we remain focused on ensuring we have effective governance, controls and processes and operate in line with the UK Corporate Governance Code. We welcome and support the modifications made to the Code during the year and other steps to ensure regulation is proportionate and encourages competition and growth.

The Group's approach to corporate governance is discussed in Sections B3 and B4

Conclusion

I am proud of what Paragon has achieved in the last year. Our teams have used their specialist knowledge to support our customers in growing their businesses. This focus has resulted in strong growth in our lending and savings portfolios and with sustained margins, while delivering tangible results on our diversification and digitalisation strategies and providing strong returns for shareholders.

Looking ahead, we expect further external uncertainties to challenge the UK economy and its banking sector. There will undoubtedly be difficult trade-offs for the new government as it implements its plans, including both the pro-growth economic initiatives and the regulatory and fiscal reforms it has committed itself to. Whilst these risks may affect our plans, we believe our business is well positioned to respond effectively to them and to support growth in the UK economy.

I would like to express my thanks to all my colleagues on the Board, and our talented and dedicated employees for their hard work and commitment throughout the year. We are fortunate to have a team of people with a blend of long experience with Paragon and fresh perspectives from other businesses and backgrounds, united behind our purpose of supporting the ambitions of the people and businesses of the UK by delivering specialist financial services and generating long-term value for our shareholders.

Robert East

Chair of the Board

3 December 2024

A2. Business model and strategy

At a glance

Paragon is a specialist banking group. We offer a range of savings accounts and provide finance for landlords and small and medium-sized businesses ('SMEs') and residential property developers in the UK. Founded in 1985 and listed on the London Stock Exchange, we are a FTSE-250 company. Headquartered in Solihull, we employ more than 1,400 people. Our operations are organised into two lending divisions and lending is funded largely by retail deposits.

Our purpose

Our purpose is to support the ambitions of the people and businesses of the UK by delivering specialist financial services.

Delivering on our purpose is fundamental to the success of our customers, our employees, the economy and the wider world around us.

By living our purpose, we have developed and continue to evolve an innovative range of mortgage and commercial lending products to support a unique group of customers with a distinctive set of needs, funded mostly by retail deposits.

We focus on lending to customers who require specialist products in markets typically underserved by larger high street banks. This approach requires us to be experts in these areas and we seek to know more than our competitors about our customers and the markets in which we operate, the products and services we offer, and the risks we take. We see specialisation as what makes us different – as our competitive advantage – and it runs through our business model and strategy.

Working together as one team also provides the opportunity for our people to achieve their own ambitions, to grow and develop, to enjoy a successful career and to build strong foundations for their lives outside of work.

Our values

We have a strong and unique culture underpinned by eight values that we strive to live up to every day. These values inform the way we operate, what we stand for and how we work together to achieve our goals.

- **Commitment**
- **Creativity**
- **Fairness**
- **Integrity**
- **Humour**
- **Professionalism**
- **Respect**
- **Teamwork**

Mortgage Lending

We offer buy-to-let mortgage finance for landlords operating in the UK's Private Rented Sector. A pioneer in this segment of the mortgage market, we have originated £30.7 billion of buy-to-let lending since 1996.

We support landlords at all stages of their development and a large proportion of our customers have portfolios of four or more properties, invest in a range of different property types and have built their business via corporate structures.

Landlord customers
47,950+

New lending
£1.49 billion
(2023: £1.88 billion)

Loan assets
£13.42 billion
(+4.0%)

Commercial Lending

Since the introduction of our first commercial lending products for SME customers in 2014, carefully targeted expansion in the commercial lending market has been an area of strategic focus. We concentrate our specialist expertise in four areas.

SME lending

New lending **£0.48 billion** (2023: £0.45 billion) | **Loan assets** **£0.82 billion** (+7.9%)

Supporting customers across construction, transport, manufacturing, agriculture, technology and professional services with finance to invest in assets and improve cashflow. Our products include hire purchase, and operating and finance leases.

Development finance

New lending **£0.51 billion** (2023: £0.52 billion) | **Loan assets** **£0.88 billion** (+18.2%)

Helping property developers to bring their plans to life with competitive and flexible finance, including residential development loans, bridging and pre-planning finance, as well as finance for purpose-built student accommodation and build-to-rent developments.

Structured lending

Total facilities **£0.33 billion** (2023: £0.24 billion) | **Loan assets** **£0.26 billion** (+52.0%)

Delivering finance for non-bank specialist lenders.

Motor finance

New lending **£0.16 billion** (2023: £0.16 billion) | **Loan assets** **£0.33 billion** (+11.3%)

Providing finance through approved intermediaries and dealers for cars, light commercial vehicles and leisure assets, including motor homes and caravans.

Business customers
43,000+

New lending
£1.24 billion
(2023: £1.13 billion)

Loan assets
£2.29 billion
(+16.1%)

Savings

Our principal source of funding for our lending activities is a range of savings products offered to UK households. We offer a range of safe, simple and transparent Easy Access, Defined Access, Notice and Fixed Term savings accounts, including ISAs. Online and postal distribution is supplemented by distribution through digital banking and wealth management platforms.

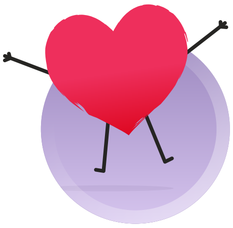
Other funding for lending is derived from the tactical use of wholesale funding and central bank facilities. Central funding is provided through corporate bonds.

Direct customers
307,500+

Savings deposits
£16.3 billion
(+22.9%)

Trustpilot customer rating
4.7/5.0
1 October 2023 to
30 September 2024

Supporting our customers



We are proud of our customer-focused culture. Delivering good outcomes for our customers is a top priority, and the implementation of the FCA Consumer Duty has given us the opportunity to innovate in the way we approach customer understanding, customer support, price and value, and product design and governance.

Alongside this, we've taken steps to further embed a customer perspective in everything we do by boosting our learning and objective-setting framework and continuing to develop our support for customers in vulnerable circumstances.

Customer journey mapping

Following extensive customer journey mapping, our savings and motor finance teams were able to identify and implement a range of improvements to customer processes, and boost information and support around critical tasks.

Communications testing

We introduced a new type of communications testing, reaching out directly to a customer panel to identify how we could make our language more simple and easier to understand on key customer letters and emails around sensitive topics, including account arrears and bereavement.

Best Easy Access Savings Provider

Cash ISA Provider of the Year

Consistent service

Maintaining consistent service in periods of high demand is not easy but a commitment to continuous improvement has meant our Savings team has been able to maintain a monthly Trustpilot rating of 4.6 out of 5.0 or above since October 2023.

Processing an average of 17,500 new account applications from direct savings customers each month, peaking at almost 27,500 in the April 2024 ISA season, the team has kept satisfaction high by developing a 'surge management toolbox', with a menu of protocols that help to close the gap between planned and actual performance as quickly as possible.

17,500 **new account applications from direct savings customers processed each month on average**

Price and fair value

Following the implementation of the Consumer Duty, we have enhanced the framework we use to ensure our products are priced appropriately and offer fair value to customers and continue to develop our approach as best practice evolves.

ACE-ing it!

As part of Consumer Duty implementation, over 260 customer-facing employees across our businesses took part in ACE training. Also known as Applying Customer Excellence, this thought-provoking, actor-led training challenges employees to look closely at customer experience and consider how to improve customer outcomes. In addition to this, all employees took part in customer-focused e-learning.

Customer-focused objectives

We introduced Purpose and Performance Profiles for each employee to help everyone see the link between Paragon's purpose and strategy and their own individual role, and to set objectives that span five critical success areas: customers, colleagues, commercial performance, risk and sustainability.

Customers in vulnerable circumstances

We work consistently to identify and tailor support for customers in vulnerable circumstances including those in financial difficulties. As an example, our customer journey mapping highlighted an important opportunity to improve support for those registering or activating a Power of Attorney by simplifying our Power of Attorney Guide and streamlining our customer processes.

Our business model

Our business model is designed to enable us to add value by focusing on meeting the specialist needs of a range of different customers, while positioning ourselves to deliver returns for shareholders and meet our broader obligations to society.

We have a broadly-based funding capability

We fund our assets using a variety of sources and take care to secure competitive funding over an appropriate term to underpin our assets, meet working capital requirements and maintain a strong financial position.

- **Retail deposits**
- **Securitisation**
- **Bonds**
- **Central bank funding**

We lend on diversified assets

We focus on building our asset base by originating new loans, developing new products and diversifying into new markets.

- **Buy-to-let mortgages**
- **Development finance loans**
- **SME lending**
- **Motor finance**
- **Structured lending**

We use our core strengths to achieve success

Customer expertise

We have a deep understanding of our customers and their markets, designing products to meet their needs and continually striving to exceed their expectations.

784 million +

items of customer data analysed each month

Risk management

We lend conservatively based on detailed credit assessments of the customer and underlying loan collateral to minimise the risk of non-payment and portfolio losses.

Impairment charge

£24.5 million

Technology

New digital mortgage origination platform

launched to broker community

We are utilising digital technology to improve productivity, enhance service to customers and access new markets.

Management expertise

15.9 years

Average length of service of the executive management team

We have an experienced management team with a through-the-cycle track record.

Cost control

Distributing loan products principally via third party brokers and collecting savings deposits online and operating mainly from a centralised location means we run a cost-efficient business.

Underlying cost: income ratio

36.1%

Our people

We are committed to helping all of our employees reach their potential and recognise the importance of development and diversity in maintaining a skilled and engaged workforce.

82

employees receiving support with apprenticeships and professional qualifications

Culture

Our core values underpin the way we do business and how we interact with our customers and other stakeholders with a focus on delivering good customer outcomes.

96%

of our people are proud to work at Paragon[1]

Strong financial foundations

We utilise capital and debt positions efficiently to maintain balance sheet strength.

CET1 ratio

14.2%

[1]Based on a survey of new starters after completing their probationary period.

We deliver value for all our stakeholders

Our Section 172 statement can be found on pages 107-114

Shareholders

Creating long-term shareholder value by growing profits and dividends.

See page 108

Dividend per share

40.4p

Employees

Helping our people develop their career and reach their potential.

See page 110

Average training per employee in 2024[2]

4.4 days

Society

Helping the UK economy grow and supporting the communities in which we operate.

See page 112

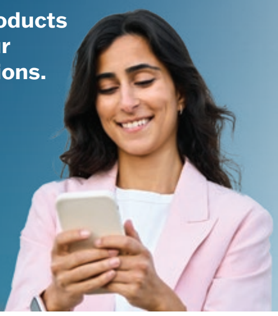
460

paid volunteering days supporting charities and local community groups

Customers

Providing specialist lending products and saving accounts to help our customers achieve their ambitions.

See page 109



+66

Net Promoter Score ('NPS') for savings account opening

Environment

Continually reducing our environmental impact and designing products that support positive environmental change.

See page 113

53.4%

New mortgage lending on properties with an EPC rating of A-C

[2]Employer skills survey, UK average 3.6 days

Our strategy

> Our strong performance reflects our growing specialist franchise, the resilient nature of our business and the continued strong progress in our purpose-driven strategy of supporting our customers in achieving their ambitions.

Nigel Terrington, Chief Executive

Our strategy is driven by our purpose and helps us achieve our vision to become the UK's leading technology-enabled specialist bank and an organisation of which our employees are proud. Our strategy is to focus on specialist customers, delivering long-term sustainable growth and shareholder returns through a low risk and robust model. We have five clear strategic priorities that help us deliver our strategy underpinned by three strategic pillars.

Our strategic priorities

Find out more about the progress we are making on each of our strategic priorities on pages 18-23

Growth Read more on page 18

Delivering consistent growth in loan assets and funding by focusing our expertise in specialist lending markets and building an award-winning savings franchise.

Progress
- 5.2% five-year compound annual growth rate in the net loan book
- Strong new business pipeline at 30 September 2024
  - Buy-to-let mortgages £0.88 billion (up 48.2%)
  - Development finance £0.20 billion (up 31.0%)

Diversification Read more on page 19

Developing resilience by diversifying into commercial lending alongside our traditional stronghold in buy-to-let and maintaining a broadly-based funding capability.

Progress
- 45.3% of new lending now Commercial Lending
- £16.3 billion retail deposits, 22.9% year-on-year growth

Digitalisation Read more on page 20

Transforming our business using digital, cloud-based technology to enhance customer service, productivity and growth.

Progress
- 94% + of core and support systems now cloud-based
- New digital mortgage application platform launched to the broker community

Capital management Read more on page 21

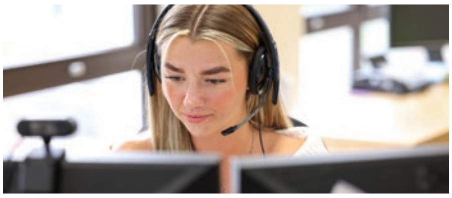
Generating strong levels of core capital to support customers through the economic cycle, provide capacity for growth and shareholder returns.

Progress
- £1.2 billion tier 1 equity
- 20.3% underlying return on tangible equity

Sustainability Read more on page 22

Moving towards net zero, building skills and capability to support long-term growth and maintaining strong stewardship.

Progress
- 48% reduction in market-based emissions since 2019 base year
- £795.3 million new mortgage lending to EPC A-C properties

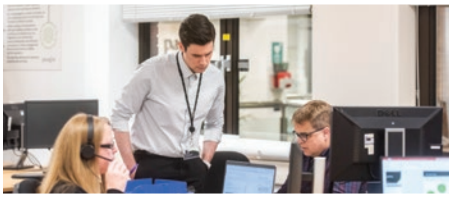


A customer-focused culture

Expert knowledge and experience, supported by proprietary insight, data and analytics to deliver deep understanding and good outcomes for all our customers.

A dedicated team

An experienced, skilled and engaged workforce, and a unique culture underpinned by eight values.



Strong financial foundations

Prudentially strong, with a low-risk approach to lending, reducing volatility of underlying earnings and enhancing sustainability of dividends.

Our strategic pillars

Principal risks

We have identified a number of principal risks, arising from both the environment in which we operate and our business model, which could impact our ability to achieve our strategic priorities. We have an Enterprise Risk Management Framework ('ERMF') in place to ensure that these risks are monitored and managed in accordance with the Group's risk appetite.

These risks and the steps the Group has taken to safeguard against them are discussed in more detail in Section B8.

Capital

- Risk of insufficient capital to operate effectively and meet minimum requirements.

Liquidity and funding

- Risk of insufficient financial resources to enable us to meet our obligations as they fall due.

Market

- Risk of changes in the net value of, or net income arising from, our assets and liabilities from adverse movements in market prices.

Credit

- Risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations.

Model

- Risk of making incorrect decisions based on the output of internal models.

Reputational

- Risk of failing to meet the expectations and standards of our stakeholders.

Strategic

- Risk that the corporate plan does not fully align to and support strategic priorities or is not executed effectively.

Climate change

- Risk of financial risks arising through climate change impacting the Group and our strategy.

Conduct

- Risk of poor behaviours or decision making leading to failure to achieve good outcomes for customers or to act with integrity.

Operational

- Risk resulting from inadequate or failed internal procedures, people, systems or external events.

Strategy in action: Growth

We grow our lending in specialist market segments where customers are underserved by the large high street banks. We use our expert knowledge to grow both organically and by acquisition, in a low-risk and robust manner that allows us to balance our stakeholder needs while moving towards sustainable long-term returns.

Our approach

- Focus on specialist market segments with underlying growth potential
- Build market share by launching new products and extending distribution
- Grow retention, encourage repeat business and extend customer lifecycle

Mortgage Lending

Growing market share in buy-to-let

5th largest
lender in the market

We increased our share of new lending in the buy-to-let mortgage market from 3.7% in 2022 to 5.4%, climbing from the ninth largest buy-to-let lender in the UK market up to fifth place. Our focus on professional landlords – those with larger and more complex property portfolios – continues to be a key factor in our success as this segment of customers continues to invest and grow.

Source: UK Finance, July 2024

Delivering progress

Loan book

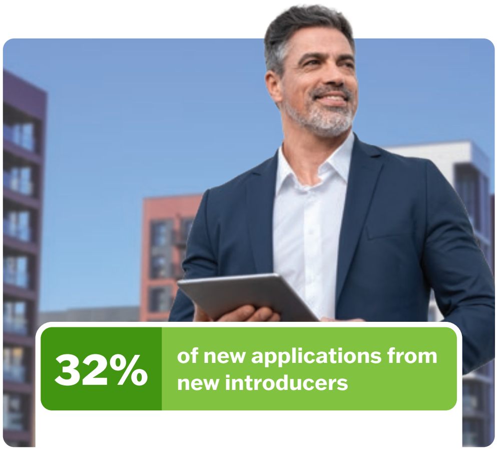
£15.71 billion
Total loans and advances to customers (30 September 2024)

5.2%
Five-year compound annual growth rate 2019-2024

Business pipeline

£0.88 billion (+ 48.2%)
Buy-to-let (30 September 2024)

£0.20 billion (+ 31.0%)
Development finance (30 September 2024)



32% **of new applications from new introducers**

Mortgage Lending

Expanding our distribution reach

Almost one third of new buy-to-let mortgage lending this year was introduced by brokers who had not used Paragon before, or who had only recently re-engaged with us. This follows a concerted effort to strengthen our relationships with mortgage networks and clubs across the UK, investing time to introduce Paragon to their members at different events and simplifying our product range and criteria to broaden our appeal.

Commercial Lending: SME lending

Stokey Plant Hire celebrates new deal with Paragon

Our specialist asset knowledge is critical to our success in the SME lending market, helping us to forge long-term relationships and encouraging customers to return year after year. Building on an eight year relationship, Telford-based, Stokey Plant Hire turned to Paragon again to secure an £800,000 finance package to purchase two dump trucks and an excavator.

> **We continue to work with Paragon because of its efficiency and knowledge of the industry. It's refreshing to work with a lender that understands the industry we operate in and the machinery that we're looking to purchase**
>
> Stokey Plant Hire Managing Director Sarah Jones

Strategy in action: Diversification

We develop specialist lending products and savings accounts in new and existing markets to grow our business and help us succeed in becoming the UK's leading technology-enabled specialist bank.

Delivering progress

45.3%

Commercial Lending as a proportion of new lending in 2024

£16.3 billion

Retail savings deposits at 30 September 2024 (30 September 2023: £13.3 billion)

£88.3 million

Commercial Lending profit contribution (2019: £44.9 million)

Our approach

- Build capability in specialist commercial lending markets alongside buy-to-let
- Develop a successful savings franchise, while maintaining access to central bank and capital market funding
- Enhance flexibility to stay resilient in the face of changing market conditions

Commercial Lending expansion

Development finance pass £3 billion lending milestone

Since launching into the market in 2016, Paragon's development finance team has made a big impact, lending over £3 billion in total, funding approximately 13,000 new homes across the UK, launching into the Purpose-Built Student Accommodation ('PBSA') market and adding a Build-to-Rent proposition to serve this growing market.

13,000+ new homes

69% of standard business now received through the portal

Auto-decisioning expands capacity for SME lending

Enhanced, automated support for decisioning, introduced as part of a new digital origination portal for brokers in SME lending last year, has given rise to a step-change in the operation's ability to handle smaller value loans more efficiently. This has increased applications for these products, reduced the size of the average balance and risk in the portfolio, and given our specialists more time to focus on larger, more complex transactions.

Savings success

36%+ increase in value of new ISA accounts

Busiest ever ISA season

Our award-winning, retail deposit franchise has provided a strong foundation for lending growth and diversification since inception in 2014. This year, against the backdrop of higher interest rates, we achieved a 36% year-on-year increase in the value of new ISA accounts. We believe our consistent focus on cash ISAs is one of the key factors that puts us ahead of many of our direct competitors in this market.

Strategy in action: Digitalisation

We are transforming our technology by implementing digitally-enabled, API-driven, cloud-based platforms. This allows us to deliver outstanding customer service, become more efficient, support decision-making and reach more customers in new markets.

Our approach

- Implement flexible, cloud-based and digital-first technology
- Utilise API and Open Banking technologies to enhance customer propositions and deliver deeper insight
- Leverage data and emerging technology to enhance experience for customers and employees

A fast-paced transformation

We are delivering a fast-paced digital transformation, moving through a carefully planned, stepped programme to bring a better experience for our customers and colleagues.

94% +

Proportion of core and support systems now cloud-based

Systematically transforming customer-facing platforms across every part of the business

> The system is modern and user friendly. It picks up all the information from Companies House without us having to type it in which is great!
>
> Sarah Golding – Team Leader, The Buy to Let Broker

New buy-to-let origination system now live

In September, we began a phased roll-out of our new mortgage origination system that will accelerate and simplify the mortgage application process for mortgage brokers and customers.

The culmination of over 90,000 hours of planning, development and testing, the new platform delivers a powerful combination of advanced technology and integrated data inputs.

It will transform the way we work, removing time-consuming manual tasks and re-checking so that we can focus on more complex tasks. This means, by cutting the time from application to offer, we can scale up to deliver higher volumes than ever before.

▸ **Faster application**

Pre-populated data from trusted sources including Land Registry, Companies House, Hometrack and Experian dramatically cuts application time

▸ **Quicker decisions**

Real-time data inputs allow for early checks and real-time decisions-in-principle

▸ **Dynamic filtering**

Dynamic filtering means we only show customers relevant products, ask the questions and request the documents we absolutely need

▸ **Flexible processing**

Customers and brokers can add up to four applicants, include multiple properties on one application, and save and resume their work at any time

Next on our digitalisation roadmap

We are currently preparing for enhancements to our back-office platform in SME lending, and exploring the potential of generative AI, alongside machine-learning AI which is already actively used and well established in the business.

Strategy in action: Capital management

A strong balance sheet and diverse funding capability is fundamental to our success. Capital management is a critical lever as we invest to grow our business and people while evolving our technology, risk, governance and enterprise frameworks, with a goal of delivering a sustainable return on tangible equity of 15 - 20%.

16.0%
Total Capital Ratio
30 September 2024

14.2%
Common Equity Tier 1 Ratio
30 September 2024

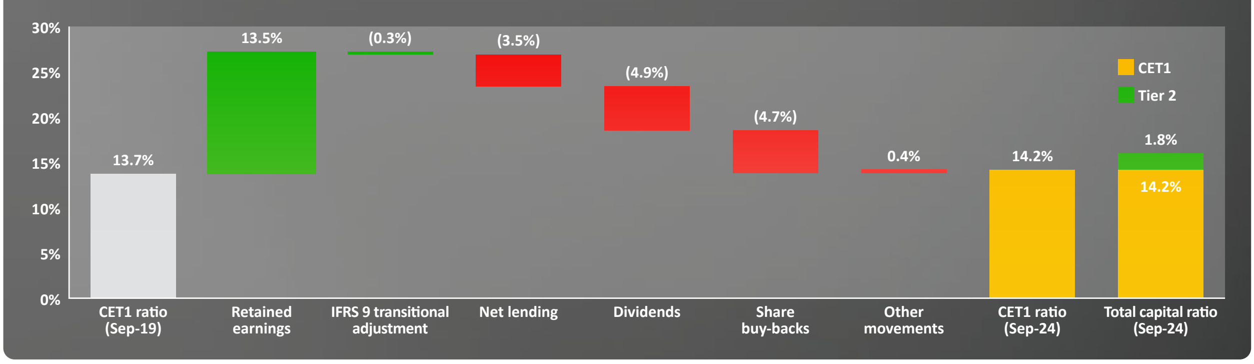
Our approach

- Maintain a cautious risk appetite, operationally and prudentially
- Deliver a sustainable return on tangible equity of 15-20%
- Grow our dividend and return excess capital through a share buy-back programme

Strong capital generation

Internal capital generation is a demonstrable strength of the Group and provides the ability to both support growth and enhance returns to shareholders. Since 2019, our trading performance has added 13.5 percentage points to our Common Equity Tier 1 ('CET1') ratio, before investing in growth and making distributions to shareholders, as shown below.

Movement in capital 2019-2024



£548.7 million
Total dividends since 2015

£533.0 million[1]
Total capital returned to shareholders through share buy-backs announced since 2015

[1]Including £100.0 million share buy-back announced in the year (of which £76.2 million completed by 30 September 2024 and £16.3 million completed post year end) and a further £50.0 million share buy-back announced on 3 December 2024

Consistent shareholder returns

We aim to enhance shareholder returns on a sustainable basis, while protecting the capital base. In ordinary circumstances, we distribute 40% of consolidated underlying earnings to shareholders, achieving a dividend cover ratio of approximately 2.5x. Our share buy-back programmes provide flexibility to return excess capital to shareholders as appropriate.

Capital requirements and growth

We continue constructive engagement with the PRA regarding our application for an Internal Ratings Based ('IRB') accreditation. An IRB accreditation will enable us to match the risk weighted capital we need for buy-to-let and development finance lending more closely with the proven, long-term credit performance of these loan portfolios, potentially freeing up additional capital for growth.

Starting from 1 January 2026, the PRA is phasing in changes to its Rulebook over a four-year period to reflect revisions to the Basel framework for all banks – known as Basel 3.1 – relating to capital requirements for credit risk. If implemented fully on 30 September 2024, these would have had the effect of reducing the Group's CET1 ratio by 104 basis points, still comfortably above the regulatory minimum.

Strategy in action: Sustainability

At Paragon, sustainability means understanding our responsibilities towards the environment and the communities in which we live and work, focusing our agenda on doing the right thing for all our stakeholders and contributing to a world in which we can all thrive.

Our approach

- Reducing our own emissions to become operationally net zero by 2030
- Financing a greener world by delivering sustainable lending products to help achieve the UK's 2050 net zero goal
- Making a positive difference to our people, customers and communities
- Achieving the highest standards of business integrity and professionalism

Reducing our operational impact

We want to make a positive contribution to the challenge of climate change and one area of focus is reducing the environmental impact of our everyday business activities.

48%
reduction in market-based emissions compared to 2019 baseline

91%
of total electricity from renewable sources (2024)

70%
of waste diverted from landfill

Consolidating our office space

This year, we consolidated two office buildings in Solihull, bringing our people together in one location. This reduction in office capacity is made possible by our flexible, hybrid working model and will let us focus future upgrade investment more effectively.

Electrifying our fleet

Some roles at Paragon come with a car, so employees can meet with their broker and customer contacts. Since January 2022, we have transitioned this fleet to 95% hybrid or fully electric vehicles.

Financing a greener world

We work with industry, partners and policy makers to play a proactive part in supporting our customers' transitions to net zero and embed sustainable finance throughout our business.

Mortgage Lending

£795.3 million

new mortgage lending on EPC A-C properties.

Refurb-to-let

We launched a new refurb-to-let mortgage product that gives landlords the opportunity to upgrade their property, including its energy-efficiency, before letting it to tenants.

Commercial Lending: Development finance

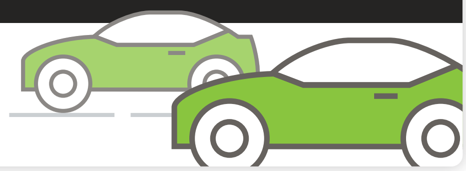
£300 million fund

Green Homes Initiative in development finance to support the building of energy-efficient properties.

Commercial Lending: SME lending

Zero-emission taxi fleet funding

In a first for our SME lending team, we provided funding for Otto Cars to acquire a fleet of zero-emission taxis, using an innovative pay-per-use funding model.



Making a difference

When it comes to social matters, the needs of our people, customers and communities are a priority. We continue to think globally and deliver locally across the UK.

Customers

4.7 out of 5.0 ★★★★★
Trustpilot score

rated by 4,833 savings and mortgage customers

1 October 2023 – 30 September 2024

People

Equality, Diversity and Inclusion ('EDI')

Since 2017, we have delivered a comprehensive programme of action to expand diversity and inclusion, introducing our EDI Network in 2020 amongst other initiatives. This year, we outlined a new EDI strategy and targets for female and ethnic minority representation. These include:

- 40% female senior management representation by 2025 (30 September 2024: 37.9%)
- New target set for 5% ethnic minority senior management representation by 2027

Communities

£40,000 donated to good causes

£49,000 raised by employees for Molly Ollys, our charity of the year

460 volunteer days contributed to community projects across the UK

A3. Chief Executive's review

"Paragon's consistent focus on sustainable growth, enabled by an increasingly diversified and digitalised operating model, and supported by strong internal capital generation, puts us in a strong position to continue delivering superior returns to shareholders whilst continually supporting our customers' ambitions.

Nigel Terrington, Chief Executive

Introduction

The period ended 30 September 2024 has been another year of strong financial and operational performance, building on our consistent track record over the past decade, underpinned by the strength of our business model and long-term strategy.

A combination of new lending towards the top end of expectations and the strong retention of customers reaching product maturity saw our total loan portfolio grow to £15.7 billion at 30 September 2024, up 5.6% in the year and in line with our 10-year loan book CAGR of 5.4%. In addition to loan book growth, our savings franchise has also continued to develop, with balances up almost 23% in the year, supporting a strong liquidity position and the accelerated repayment of the majority of our TFSME drawings.

Net loan growth totalled 4.0% in Mortgage Lending and 16.1% in our Commercial Lending division, underlining the ongoing delivery of our diversification strategy. Commercial Lending now comprises 14.6% of the net balance sheet loans but generates 27% of our total income. With Commercial Lending generating a stronger margin than Mortgages this mix effect has been an important factor in our continued strong NIM performance for the year.

Our digitalisation programme reached one of its most significant milestones to date, with our new buy-to-let origination platform being rolled out internally and to a first wave of brokers during the final quarter. This more digitalised, AI-enabled, operating model will further expand our already extensive data, support improved efficiency and enhance customer interactions, whilst not diluting the specialist nature of our lending or our vital broker and customer relationships.

Financial performance

A combination of stronger margins and higher loan volumes resulted in net interest income rising by 7.6% from its 2023 level to £483.2 million. Within this, our net interest margin rose to 316 basis points (2023: 309 basis points), where the effects of the net free reserve hedge created during the year, and asset-side margin strength, have served to more than offset the effects of lower spreads between deposit rates and SONIA.

Operating costs, which now include the new PRA levy, came in around expectations at £179.2 million (2023: £170.4 million). With income rising faster than expenditure the cost-to-income ratio improved further in the year, to 36.1% (2023: 36.6%). We continue to expense the bulk of our digitalisation investment spend, with only £4.5 million being capitalised to software intangibles in the year, taking the year-end balance to £8.0 million (2023: £4.4 million). Our investment in digitalisation continues to support improved operational efficiency, which remains an important area of focus. At 1,411, our year-end headcount was 7.3% lower than its September 2023 level.

The higher interest rate environment saw some greater pressure on customers with variable rate loans in our buy-to-let and development finance books. Overall impairments rose to £24.5 million from £18.0 million in 2023, reflecting a cost of risk of 16 basis points (2023: 12 basis points). The arrears performance in the buy-to-let book has improved in the second half of the year, with 30 September three-month plus arrears standing at 38 basis points compared to 34 basis points at September 2023 and 68 basis points at March 2024, while buy-to-let security levels remain robust, with a loan-to-value ratio of 62.8% (2023: 62.8%).

Underlying operating profit, before fair value items, rose 5.4% from its 2023 level to £292.7 million (2023: £277.6 million). When applied to the lower share count arising from the share buy-back programme, underlying basic earnings per share rose 7.3% to 101.1 pence per share.

Our dividend is based on underlying earnings per share and increased by 8.0% year-on-year to 40.4 pence per share (2023: 37.4 pence), in line with policy.

Fair value balances continued to unwind during the year, but at a slower rate than in 2023 at £38.9 million (2023: £77.7 million). Consequently, statutory pre-tax profits rose 27.0% from their 2023 level to £253.8 million (2023: £199.9 million).

Tax, at 26.7%, took statutory post-tax profit to £186.0 million (2023: £153.9 million), and basic earnings per share to 88.5 pence (2023: 68.7 pence), an increase of 28.8%.

Trading performance

New lending levels have been strong in each of our divisions, with a notable uptick in the second half of the year reflecting strengthening confidence amongst our customers as interest rates started to reduce, inflation fell and the outlook for property prices improved.

For the full year, total new lending of £2.73 billion was delivered, in line with market guidance (2023: £3.01 billion), with £1.49 billion of new buy-to-let mortgage business (2023: £1.88 billion) and £1.24 billion of advances in our Commercial Lending division (2023: £1.13 billion).

Total new advances in the second half of the year were 20.3% higher than in the first six months, and the year-end pipelines in both buy-to-let and development finance, at £0.88 billion and £0.20 billion respectively, were 47.7% and 31.0% higher than their positions at September 2023, which will drive volumes in the new financial year.

Customer retention remains strong, with aggregate buy-to-let redemptions of £0.86 billion compared to £1.11 billion in 2023, representing a redemption rate of 6.7% compared to 9.0% a year before. Together these factors drive the continuing growth of our loan book, which increased 5.6% in the year, reaching £15.7 billion, its highest ever level.

The motor finance industry has seen regulatory and legal intervention during 2024, initially with the FCA review of discretionary commission arrangements, and more recently on commission disclosures more generally, following a Court of Appeal ruling after the year end. Motor finance is a very small part of our business, but with so much uncertainty around how the regulators and courts will finally conclude on the various issues, the different customer journeys and fact patterns for our business when compared to the Court of Appeal cases and the potential implication for us, we have made no provision for potential redress or other costs, given our limited exposure to cases similar to those before the Court.

Sustainability

At 53.3%, over half of our new buy-to-let lending in the year was on more energy-efficient properties, those with EPC ratings of C or above, compared to 49.9% in 2023 and 45.1% in 2022. We also extended our Green Homes Initiative for property developers and increased our lending on electric vehicles. At the same time we continue to make strong progress on our own operational emission reductions, with 2024's levels representing a 48% reduction against our 2019 baseline. Further enhancements are planned over the coming years, particularly in respect of our head office building.

Capital and funding

Deposit generation has been very strong in the year, with growth from both direct business and our presence on third party platforms. Total balances ended the year at £16.3 billion (2023: £13.3 billion), with 23% having been accessed via platforms (2023: 22%). This range of alternative routes to market optimises our access to liquidity and is an important aspect of our diversified funding mix. Across all our funding sources, we continue to operate in both the fixed and variable rate markets, the latter having underpinned the majority of the growth seen in 2024. At the end of the period the fixed-to-variable split was 50.7% : 49.3% (2023: 65.5% : 34.5%).

The strong deposit flows resulted in an average LCR of 211.5% for the year (2023: 193.7%) which has facilitated the refinancing of £2.0 billion of our TFSME drawings together with our last outstanding public securitisation and our final retail bond.

Our capital ratios are prepared using the standardised approach, which results in a CET1 of 14.2% and a total capital ratio of 16.0% (2023: 15.5% and 17.5% respectively), which remain comfortably above the regulatory requirements.

We have now seen the PRA near-final proposals in respect of capital under Basel 3.1. For a buy-to-let dominated balance sheet the proposals increase capital requirements, albeit materially less so than the first consultation paper suggested. We estimate that the proposals would reduce our CET1 ratio by around 104 basis points, compared with the around 210 basis points effect of the earlier draft.

However, our objective remains to obtain an IRB accreditation, initially for our buy-to-let business, and 2024 has seen a far greater level of engagement with the PRA's specialist teams than had been the case in the recent past. With currently authorised IRB banks making more progress with their new hybrid models, we now have a clearer understanding of the regulator's expectations for our book in the context of this new approach. However, it should be noted that our specialist buy-to-let portfolio is, by definition, more complex than the more commoditised mortgage portfolios the regulator tends to see in the wider banking sector.

The planned share buy-back for 2024 was still in progress at the year end, with £76.2 million invested from the £100.0 million programme. An irrevocable instruction was put in place in September 2024 to continue the buy-back into October, when a further £16.3 million was utilised. This left £7.5 million of the original £100.0 million outstanding, which will be completed in the 2025 financial year alongside a newly announced programme of up to £50.0 million for that year.

Strategic outlook

We continue to build on our strong lending and savings franchises, providing attractive products to our customers. Over the coming years, our customers will be served in an increasingly efficient and effective manner as we deliver our digitalisation plans.

Strong positions in our chosen markets, together with diversification on both sides of our balance sheet, combine to deliver robust earnings from our operating model and we intend to maintain this approach into the future.

Capital management and prudential discipline remain key areas of focus, ensuring sufficient funds to grow in a prudentially strong manner, whilst at the same time distributing any excess through dividends and buy-backs. Our distribution policy for the forthcoming financial year remains unchanged, with a central assumption of distributing around 40% of underlying basic earnings per share, augmented by our share buy-back programmes.

Conclusion

Our 2024 results demonstrate the strength of our franchise and operating model and are especially pleasing after the challenging opening to the year, impacted by subdued demand in our key sectors during 2023.

We have seen accelerating momentum throughout the year, with new lending levels reaching the upper range of our expectations and strong customer retention. Improving customer sentiment, robust year-end pipelines, and our strategic focus on specialist markets, gives us confidence as we enter the new financial year. Our savings franchise also continues to grow at pace, with retail deposits up almost 23%, supporting our growth ambitions and providing strong liquidity.

Paragon's consistent focus on sustainable growth, enabled by an increasingly diversified and digitalised operating model, and supported by strong internal capital generation, puts us in a strong position to continue delivering superior returns to shareholders whilst continually supporting our customers' ambitions.

Nigel Terrington
Chief Executive Officer
3 December 2024

A4. Review of the year

This section describes our activities in the year under these headings:

Business review	Funding review	Capital and liquidity review	Financial results	Operational review
Lending and the performance of each of our business lines	Deposit-taking and the other sources of funding used	Our regulatory capital, liquidity and distributions	Our results for the financial year	Systems, people, sustainability and risk highlights for the period
A4.1	**A4.2**	**A4.3**	**A4.4**	**A4.5**

A4.1 Business review

We report results analysed between two principal segments, Mortgage Lending and Commercial Lending, based on types of customers, products and the internal management structure. New business advances in the year and year-end loan balances for these segments are summarised below:

	Advances in the year		**Net loan balances at the year end**	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Mortgage Lending	**1,493.2**	1,879.9	**13,415.7**	12,902.3
Commercial Lending	**1,236.8**	1,128.7	**2,289.8**	1,972.0
	2,730.0	3,008.6	**15,705.5**	14,874.3

Total loan balances increased by 5.6% in the year, as we pursued our strategic objective of managed, targeted growth. Total advances decreased 9.3% year-on-year, although the pattern of movements was not consistent between our specialist markets, with Mortgage Lending, in particular, reflecting a weak opening pipeline following the rapid escalation of base rates seen during the summer of 2023.

A4.1.1 Mortgage Lending

Our Mortgage Lending division principally provides buy-to-let mortgages secured on UK residential property to specialist landlords. We have been active as a specialist in this market for almost thirty years, which gives us deep data on the market through various economic cycles. We have also developed strong relationships with business providers, landlords and trade bodies. These provide an unparalleled understanding of both the buy-to-let market and the specialist landlord customer base we target.

During the year we also offered a limited volume of loans to non-specialist landlords, although this activity is non-core and has diminished over recent periods. The segment also includes legacy assets from discontinued product lines, principally residential first and second charge mortgages, although these form a small fraction of the portfolio and are running off over time.

Our focus on the specialist buy-to-let market facilitates detailed, case-by-case underwriting, where our unique approach to managing property risk and building customer relationships differentiate us from both mass market and other specialist lenders.

Housing and mortgage market

The level of economic uncertainty in the UK over the year, coupled with the impact of higher interest rates and cost-of-living issues on mortgage affordability has significantly impacted the housing market. Activity remained subdued, with transactions for the year ended September 2024 reported by HMRC, at 1,048,000, 3.5% lower than the 1,086,000 in the previous year.

However, signs were more positive towards the year end, with the RICS September 2024 Residential Market Survey reporting stronger demand in the last months of the financial year, and RICS members being generally more optimistic on both demand and prices than in some time.

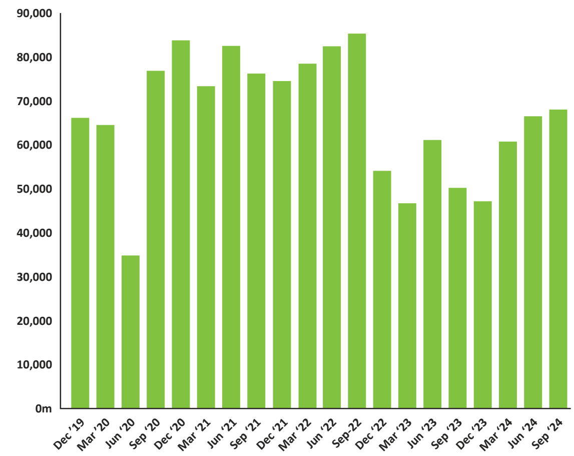
These factors led to a broadly stable performance by UK house prices in the period, with the Nationwide House Price Index recording a year-on-year increase of 3.2% to September 2024 (2023: decrease of 5.3%), although prices still remain around 2% below their August 2022 peak. This was a more resilient performance than some had predicted, however, the impact of inflation over the period means that prices fell in real terms, potentially benefitting affordability going forward.

In response to the level of activity in the housing market, new mortgage lending remained historically weak in the year, albeit with some recovery from the extreme low point of 2023. However, values remain below both 2022 and longer-term averages. The Bank of England reported new approvals of £242.4 billion for the year ended 30 September 2024, an increase of 14.2% on the £212.2 billion reported for the previous financial year. The increase was driven by mortgages for new purchases where the value of transactions increased by 28.7%. Remortgage activity, in contrast, fell by 8%, potentially as a result of the level of availability of attractive market rates, with the value of mortgages refinanced with their existing lender also falling, by 5.7%.

Quarterly Bank of England UK mortgage approval data for the last five financial years is set out below.

UK mortgage approvals (£m)

Five years ended 30 September 2024



At 30 September 2024 the UK Finance ('UKF') survey of mortgage market arrears and possessions reported arrears levels easing in the last quarter of the financial year after building for most of the period. Possession numbers remained largely stable through the year, but at a level higher than seen for some years.

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

Our target customers in the buy-to-let sector are specialist landlords active in the PRS. Such landlords will typically let four or more properties, or operate with more complex properties. They will generally run their portfolio as a business, and have both a strong understanding of their local lettings market and a high level of personal day-to-day involvement. We are amongst a group of mostly small, specialist lenders addressing this sector, which is underserved by many of the larger banks.

While it is clear that the changing economic environment and regulatory landscape has caused some landlords to step away from the PRS, our experience is that this reaction is concentrated amongst some smaller non-specialist amateur landlords, while our specialist customers remain committed to the sector.

The experience of these professional landlords, their level of involvement with their lettings business and the diversification of their income streams across properties make them less vulnerable to cash flow shocks in the event of a downturn and better able to cope when faced with an adverse economic situation impacting them or their tenants.

The development of the regulatory landscape for the PRS has been dominated for some time by the Renters (Reform) Bill proposed by the last UK Government, which failed to become law before the dissolution of Parliament in May 2024, and its successor Renters' Rights Bill introduced by the new administration.

The new bill is largely based on the original proposals, on which a significant amount of work has already been done by organisations representing lenders, tenants and landlords since the publication of the original White Paper in 2022. As the Bill passes through the UK Parliament, we hope that care will be taken to ensure the measures in the final Act are practical and fully resourced, and that they balance the needs of both tenants and landlords, recognising the important role which responsible landlords play in satisfying the UK's housing needs, and in the economy more generally.

The importance of the PRS to the UK economy was demonstrated by research into the sector carried out for the Group and the National Residential Landlords Association ('NRLA') by the professional services firm PwC. This concluded that the PRS directly or indirectly supports 390,000 jobs in the UK and contributes £45 billion per year to the country's economy. The full report is available on our corporate website at www.paragonbankinggroup.co.uk, in the 'Insights' section of our 'News' pages.

The 2023-2024 English Housing Survey, published by the Ministry of Housing, Communities and Local Government in November 2024, shows that the PRS continues to represent around 19% of English households, as it has consistently done for some time. With research published in May 2024 by the Nationwide Building Society, indicating households deferring their first house purchase due to economic pressures, this makes the role of the rented sector particularly important at present.

The impact on this demand for rental property can be seen in the lettings market data published in the RICS September 2024 UK Residential Market Survey. This reported continuing strong tenant demand coupled with a shortage of new instructions from landlords, which was pushing rents upwards, with RICS members expecting further rent rises in the short term.

Research published by Zoopla suggested that, on average, rents for new tenancies across the UK had increased by 5.4% in the year to July 2024 (the most recent published figure), after three years of growth at even higher levels, driven by demand outpacing the supply of new properties to rent. Zoopla predicts rents to continue increasing in the short term, but at a slower rate.

Around two thirds of properties in the PRS in England are funded through buy-to-let mortgages (based on UK Government data), although buy-to-let mortgage activity in the year showed less evidence of improvement than the general market. New advances reported by UKF were £31.2 billion for the year ended 30 September 2024, 17.2% lower than for the previous year (2023: £37.7 billion), with the value of both house purchase and remortgage cases falling by similar proportions.

The propensity of borrowers to transfer to new products offered by their existing lender has also been affected. While such cases are not included in data for new mortgages, information published by UKF showed that around two thirds of landlords refinancing their mortgage in the year ended 30 September 2024 switched to a new product with the same lender, rather than remortgaging with a new provider. This represented a similar proportion to the previous year, but the value of these cases was reduced, with a significant number of landlords clearly deferring any refinancing of their property, either as a result of affordability issues, or in anticipation of more competitive rates becoming available in the short term.

This mixed outlook for the sector was borne out by our own independently commissioned research amongst landlords and mortgage intermediaries.

In the Group's quarterly survey of buy-to-let landlords for the quarter ended 30 September 2024, 79% of landlords reported they were experiencing strong tenant demand, including 40% who reported very strong demand. Rental yields continued to move upwards, with 74% of respondents having made rent increases over the year, and landlords reported that rental arrears had plateaued at a low level.

However, expectations for future rental yields had fallen year-on-year and the proportion of landlords who are optimistic about their business prospects was only 33%, with the number of landlords looking to expand their portfolios at an historically low level. Only a very small number of landlords were positive about the UK economy, with a large proportion of respondents nervous that the incoming government's policies might affect their business negatively.

Amongst specialist mortgage intermediaries, our half-yearly insight survey, published in July 2024, showed the vast majority of intermediaries were confident or very confident about the prospects for their firms, the intermediary sector and the mortgage industry. The number who were confident about their buy-to-let business was lower, at 65%, but this was substantially more positive than the 56% reported a year earlier. The principal issues concerning the respondents were the impact of the change in UK Government and the level of interest rates, even after those rates had stabilised.

The UKF analysis of arrears and possessions also provided analysis of buy-to-let cases, showing a similar position to the wider mortgage market, with arrears easing in the last months of the period after moving upwards through most of the year to that point.

Overall, this data indicates that the buy-to-let mortgage market remains fundamentally robust, even in the face of economic pressures, albeit with a degree of caution on its future prospects, both on an economic and a regulatory basis. It therefore underpins the strength of our proposition, particularly given our focus on specialist landlords, who may be best placed to deal with these headwinds.

Mortgage Lending activity

New mortgage lending activity during the year is set out below. Almost all the division's lending in the period was to its target specialist landlord customers.

	2024	2023
	£m	£m
Originated assets		
Specialist buy-to-let	**1,477.9**	1,857.6
Non-specialist buy-to-let	**15.3**	22.3
Total buy-to-let	**1,493.2**	1,879.9

Total mortgage originations decreased by 20.6%, broadly in line with the reductions in business volumes seen across the buy-to-let market. This was impacted by the low pipeline, the loans passing through the underwriting process, coming into the year, which led to low volumes in the early months of the period. However, demand built during the year with business levels strengthening quarter by quarter, finishing the year positively.

This resulted in a new business pipeline of £881.4 million at the year end, 48.2% higher than the previous year end, reflecting increased market activity as the economic outlook became more stable (2023: £594.6 million).

Our focus within the mortgage sector remained tightly on the specialist buy-to-let product, lending to larger landlords, those operating through corporate structures and those with complex properties, with other products ancillary to this activity.

The majority of our mortgage lending products offer fixed rates for an initial period, with many customers choosing a new product at the end of this fixed period. Since 2017 five-year fixes have been the dominant product, which means those customers whose loans are now reaching the end of the five-year period, are having to refix their mortgage rates at a higher level.

We have well-established, digitally-enabled retention procedures in place to support customers as their fixed rates expire. We offer track-to-fixed products as an alternative to fixed-rate loans, allowing customers to delay fixing their interest rates; this flexibility has helped to support retentions in the period, as well as providing an attractive option for new customers. Over 85% of the specialist landlord customers whose products matured in the past year remained with us at the period end.

Specialist intermediaries are the principal source of our buy-to-let applications, and we continue to strategically focus on ensuring that the service they receive is excellent. Our regular intermediary insight surveys in the year showed 95% were satisfied with the ease of obtaining a response from our team (2023: 95%), delivering a Net Promoter Score ('NPS') at offer stage of +55 (2023: +60).

78% of intermediaries dealing with us rated our service as good or better than that provided by other lenders (2023: 75%). Paragon Mortgages was also named 'Best Buy-to-Let Lender' at the 2024 Mortgage Strategy Awards and 'Specialist Lender of the Year' at the Mortgage Awards 2024.

Our long-term programme of re-engineering our mortgage business continued through the year. All systems and operational processes have been thoroughly reviewed and are being refined and upgraded to align them with our strategy for the division and the overarching plan of digitalising the business.

A major system upgrade, covering the process from application to offer, was launched to our people and began to be rolled out to the broker community during the period. As well as being easier to navigate and more intuitive for users, it now offers enhanced functionality to introducers. The new platform uses API technology to enable brokers to have real-time access to data related to an application, both from the Group and third parties, including credit bureaux and Companies House, enabling significantly more efficient application processing. This will also support more effective assessment processes, delivering more capacity to our buy-to-let new lending function.

The new platform has been well received so far, both externally and internally, and the wider rollout of the new functionality across our full broker network has continued into the new financial year. We also expect that the new system will enable us to expand our broker relationships, giving access to more opportunities in the future.

Enhancements already delivered under the mortgage digitalisation programme continue to demonstrate their value to our business. The redemption and retention process which went live in 2022 continues to underpin the division's success in this area, while the landlord self-service portal introduced in 2023 is now used by 25% of the operation's customers and was used to initiate around half of all product renewals in the period. This gives us confidence in the benefits that our new system and subsequent stages of this project will bring to the business and its customers as they are rolled out.

Environmental impacts

We understand the potential for climate change to affect our mortgage business and seek to mitigate this risk, both through the application of scenario analysis to the development of our underwriting procedures, and through careful consideration of the specific risks relating to properties on which we will lend. We also continue to develop systems and refine data to allow our overall exposure to be measured and the behaviour of the security portfolio under climate-related stresses to be better understood.

As part of our response to combatting climate change, a range of green buy-to-let mortgages is offered on all types of property within our lending criteria. These products offer lower interest rates for energy-efficient properties with EPC ratings of C or higher, the currently accepted benchmark for energy-efficient properties, which the UK Government proposes to make a requirement for buy-to-let properties by 2030.

Together with other UK banking entities, we have been working with the UK Government to develop a more consistent approach to the definition of green activities in the housing market and housing finance sectors. It is unlikely that significant progress can be made in greening the UK housing stock until all market participants have a shared concept of what that should mean in detail.

Our new buy-to-let lending volumes on energy-efficient properties, which have decreased by 15.1% in the year, less than the reduction in total mortgage lending, are set out below.

	2024	2023
	£m	£m
EPC rated A or B	**189.1**	187.6
EPC rated C	**606.2**	749.1
Total rated A to C	**795.3**	936.7
Percentage with available data (UK)	**99.8%**	99.9%

Our latest analysis identified EPC grades for 95.4% by value of the mortgage book at 30 September 2024 (2023: 94.2%). Of these properties, 99.4% were graded E or higher (2023: 99.2%) with 45.4% rated A, B or C (2023: 41.8%). The year-on-year movements are principally a result of the balance of new business, with over half of the advances in the current year, 53.3% (2023: 49.9%) having one of the top three grades.

While we monitor EPC ratings, we are also conscious of the need to avoid unintended consequences by focussing lending on this. Although upgrading existing properties is beneficial to overall emissions, the demolition and replacement of properties may be less so.

Potential physical risks to security values arising from climate change are also monitored. This includes assessing a property's flood risk as part of the underwriting process. In addition, the exposure relating to the current mortgage book is monitored using specialist bureau data. This addresses the risk of flooding from rivers, seas or surface water. The latest data, at 30 September 2024, showed that approximately 3.1% of properties securing buy-to-let mortgages, where data was available, were at 'higher' risk (2023: 3.0%).

According to our quarterly landlord survey, 67% of landlords understand the proposals for new EPC C requirements trailed by the UK Government, with 92% having at least some awareness. Around two thirds of landlords have at least one property with an EPC grade of D or lower, with at least 42% planning to carry out some form of remediation.

We are currently working to develop more products to support existing landlord customers in making their properties more energy efficient. Given that the majority of properties in the PRS require some form of upgrade to meet the Government targets, this kind of support will be vital to achieving the net zero target.

Further information on these metrics and our wider climate change agenda is given in Section A6.4.

Performance

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

	2024	2023
	£m	£m
Post-2010 assets		
First charge buy-to-let	**10,620.9**	9,679.5
First charge owner-occupied	**16.2**	22.5
Second charge	**56.7**	75.8
	10,693.8	9,777.8
Legacy and acquired assets		
First charge buy-to-let	**2,658.4**	3,040.6
First charge owner-occupied	**4.1**	5.2
Second charge	**59.4**	78.7
	13,415.7	12,902.3

Balances within the mortgage portfolio have continued to increase steadily, reflecting, in particular, the success of the business in retaining existing customers. At 30 September 2024, the total net mortgage portfolio was 4.0% higher than at the start of the financial year, reflecting strong lending and retention performance. The balance of post-2010 buy-to-let lending grew by 9.7% and now represents 79.2% of the division's total loan assets (2023: 75.8%).

The annualised redemption rate on buy-to-let mortgage assets, at 6.7% (2023: 9.0%), has continued at a relatively low level. This is despite the potential impact of higher rates on customers whose interest charges are linked to reference rates, and the increasing numbers of five-year products now reaching the end of their fixed rate periods. The redemption rate during the year resulted partly from market pressures which depressed new lending, and partly from the willingness of customers to remain on reversionary interest rates for longer, in anticipation of fixed interest rates being offered in the market becoming more attractive in future. However, this also reflects the business's strategic priority of managing customer behaviour at the end of fixed-rate periods, with significant operational, product and systems focus placed on customer retention.

Arrears on the buy-to-let book increased marginally in the year to 0.38% (2023: 0.34%), with the payment performance of our customers remaining strong, despite the economic pressures in the UK. Arrears on post-2010 lending were even lower, at 0.11% (2023: 0.06%). Our arrears remain very low compared to the national buy-to-let market, as they have always been historically, highlighting the strength of our credit standards and account management processes. UKF reported arrears of 0.86% across the buy-to-let sector at 30 September 2024, sharply increased year-on-year (2023: 0.64%), though still less than the arrears seen in the wider mortgage market.

Our buy-to-let underwriting is focussed on a potential customer's credit quality and financial capability, underpinned by a robust assessment of the security offered. Relying on a detailed and thorough assessment of the value and suitability of the property as security, this approach to valuation, including the use of a specialist in-house valuation team, provides significant security in times of economic stress.

The loan-to-value coverage in our buy-to-let loan book, at 62.8% (2023: 62.8%), represents significant security, supported by the strength of UK house prices over the year. Levels of interest cover and affordability in the portfolio remain substantial, even on a stressed basis, leaving customers well placed to develop their businesses going forward; indeed, on a simple weighted average basis, our landlord customers now have around £9.3 billion of equity in their mortgaged properties.

Arrears on the closed second charge mortgage lending portfolios increased to 24.63% (2023: 23.48%) as the books continue to run off, with the total balance on such loans reducing by 24.9% in the year. These levels of arrears remain higher than the average for the sector, reflecting the history and seasoning of the balances, with the continuing upward trend reflecting the redemption of performing accounts. This book contains a significant number of accounts which are currently making full monthly payments, but which had missed payments at some point in the past, inflating the arrears rate. Credit performance is in line with expectations and we benefit from substantial security on these assets, with an average loan-to-value ratio of 50.3% (2023: 52.3%) providing a significant mitigant to credit risk.

For accounting purposes, 5.8% of the segment's gross balances were considered as having a significant increase in credit risk ('SICR') at the year end (2023: 6.5%), including 1.4% which were credit impaired (2023: 1.2%). This resulted principally from a reduction in arrears cases, offset by an increase in the number of accounts where the property was being sold. However, the level of security on the particular cases involved meant that provision coverage was reduced in the year to 26 basis points (2023: 33 basis points). Coverage on fully performing accounts, however, remained at a broadly similar level to the previous year at 3 basis points (2023: 4 basis points).

Our receiver of rent process for buy-to-let assets helps to reduce the level of losses by giving us direct access to rental flows from the underlying properties, while allowing tenants to stay in their homes. At the year end, 643 properties were managed by a receiver on the customer's behalf, an increase of 14.0% over the year (2023: 564 properties). This increase was driven by the appointment of receivers on a number of legacy portfolios, with the resolution of long-standing cases continuing.

Almost all current receiver of rent arrangements relate to pre-2010 lending, with cases being resolved on a long-term basis to ensure the best outcome for the business, our landlord customers and their tenants. As part of the receivership process, an up-to-date valuation of the property is obtained, therefore provision on these cases is based on up-to-date security values.

A4.1.2 Commercial Lending

The Commercial Lending division includes four key specialist business streams lending to, or through, commercial organisations, mostly on a secured basis. This division provides a major source of both growth and diversification in our lending operations, two of our major strategic priorities.

The four business lines address:

- Development finance, funding property development projects, mostly houses and flats
- SME lending, providing leasing for business assets and unsecured cash flow lending for professional services firms, amongst other products
- Structured lending, providing finance for niche non-bank lenders
- Motor finance, focussed on specialist parts of the sector

Each of these businesses is led by a specialist management team with a strong understanding of their market. The principal competitors for each are small banks and non-bank lenders. We operate principally in markets where the largest lenders have little presence, creating both a credit availability issue for customers and significant opportunities for our businesses.

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

Commercial Lending activity

New lending in the Commercial Lending segment increased by 9.6% in the year against an economic background which generally depressed customer demand and completion levels. However, the extent and impact on the division's four principal business lines varied. Performance in both the SME lending and structured finance businesses was stronger than in 2023. However, advances in development finance and motor finance fell, with the development finance reduction due, in large part, to the lower levels of pipeline business brought forward at the beginning of the year.

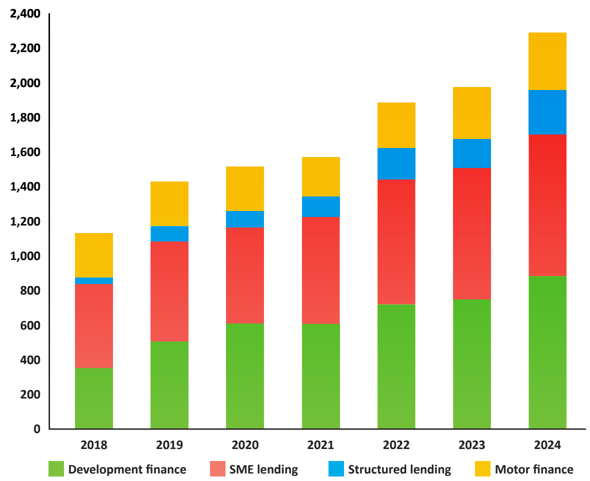
The new lending activity in the segment during the year is set out below, analysed by principal business line. As the structured lending business comprises revolving credit facilities, the net movement in the period is shown (which can be negative).

	2024	2023
	£m	£m
Development finance	**511.9**	528.1
SME lending	**480.7**	447.9
Structured lending	**87.8**	(9.5)
Motor finance	**156.4**	162.2
	1,236.8	1,128.7

These advances continued the growth of the overall Commercial Lending portfolio, with the total loan book increasing by 16.1% in the year to £2,289.8 million (2023: £1,972.0 million), its highest level to date. The increase in the portfolio over the last seven years, and its impact on our diversification strategy is illustrated by the chart below.

Commercial Lending balance outstanding (£m)

30 September 2018 - 2024



Development finance

The level of new advances in our development finance business was affected by economic and political uncertainty in the UK, particularly around the start of the year, which resulted in developers taking a more cautious approach to the timing of phased drawings on existing facilities, and led to a lower new business pipeline entering the period. However, advances for the year as a whole only declined by 3.1%, despite the weak start to the period, and the year saw the operation's total lending to date reach £3 billion since 2018, supporting the development of around 13,000 new homes.

The financial year began with both undrawn balances on agreed facilities, and cases in the process of underwriting, at an historically low level. Unsurprisingly, this led to a reduced level of lending in the early months of the year, with advances for the first six months of the period, at £243.8 million, 10.7% lower than those seen in the first six months of the 2023 financial year. However, as the year progressed increased levels of proposals were received, with these proposals generally of higher average quality, leading to a rising conversion rate in the period. Completions in the second half increased by 10.0% to £268.1 million, 5.1% higher than in the comparable period in 2023.

Our customer base comprises primarily smaller scale property developers, whose business model relies on a continuing flow of new projects, and during the year we have seen a flow of proposals that are economically feasible in spite of the prevailing conditions of higher costs and interest rates than seen in recent years. Concern over the availability of labour and supplies has reduced, which has helped boost confidence in the sector, as have positive statements on housebuilding and planning from the incoming UK Government.

This resulted in a level of enquiries in the period which was 31.1% higher than that seen in the previous year, and the commitment value of new facilities which made their first drawing in the period reaching £558.2 million (2023: £365.0 million).

Undrawn balances on projects in progress increased by 23.1% year-on-year, to £497.7 million (2023: £404.1 million), while the new business credit approved pipeline recovered to £202.1 million, 31.0% higher than its September 2023 low point (2023: £154.3 million). These projects will provide advances into the new financial year, laying the foundations for a strong performance in 2025.

Our product range was expanded during the year to include projects under the Build-to-Rent ('BTR') initiative. This proposition supports the full lifecycle of BTR schemes in established residential locations in cities and large towns across the UK, including site acquisition, development, the letting of a completed scheme and a short-term stabilisation facility, before the property can be refinanced or sold as a buy-to-let investment.

We extended our Green Homes Initiative Fund by a further £100.0 million during the year, to £300.0 million. This scheme provides beneficial terms for projects which focus on the development of energy-efficient properties with an EPC A grade, and by 30 September 2024, £220.7 million of new lending facilities had been agreed under this initiative (2023: £175.2 million), with drawings in the year of £66.8 million (2023: £43.7 million) and several major projects completed. This initiative rewards energy-efficiency, improving the environment and reducing fuel bills for the ultimate residents, while providing financial benefits to customers.

The regional spread of development finance lending has continued to broaden gradually. While the proportion of the portfolio located in London and the South-East of England decreased only marginally, to 45.1% from the 45.8% recorded at 30 September 2023, it was still significantly less than the 53.7% recorded in September 2022. During the period the business also appointed a new relationship director for Yorkshire and the North East of England, to increase its presence in this under-represented area.

The underprovision of new homes in the UK, based on long-standing requirements set out in government forecasts, has been stated as a priority issue by the incoming UK Government. Meeting this demand could, subject to the effect of any policy interventions, offer significant expansion opportunities for smaller developers and for our development finance business to support them. We also have a strong presence in the purpose-built student accommodation market, where evidence suggests there is a significant shortfall in high quality provision.

SME lending

Our SME lending business has a focus toward construction equipment and similar wheeled plant, and therefore is exposed to UK sentiment around capital investment. The political uncertainties of the period in the UK and the impact of relatively high interest rates serve to increase levels of caution around committing to major capital projects, so the business has been faced with a testing operating environment for most of the year. Despite this, total volumes increased by 7.3% year-on-year, with much of the increase focussed on longer-term products.

Following the major update to its front-end IT systems two years ago, the business has continued to roll out incremental system changes, delivering operational efficiencies and an enhanced experience to its business partners, which have led to growth in application flows. Auto-decisioning systems, which use machine-learning AI to support our specialist underwriters, helping to give a quick response to proposals, have been extended and refined in the period. The enhanced underwriting system now handles 69% of the division's cases and its increased level of automation has also facilitated the efficient processing of the increased number of applications for smaller value arrangements dealt with in the period. This enables us to decrease average exposures and reduce risk in the business at the same time as delivering growth.

Asset leasing volumes increased by 15.4% year-on-year to £330.7 million excluding government-backed balances (2023: £286.4 million), considerably exceeding the 1.1% increase in new leasing business, excluding cars and high value items, in the year to 30 September 2024 reported by the Finance and Leasing Association ('FLA'), and the 0.6% increase in lending to SMEs reported in the same data. Investment in operating leases has also continued with £13.1 million of assets acquired in the period (2023: £15.3 million). New business applications were strong throughout the year, providing positive indications for new business going forward.

Short-term lending to professional services firms outside government-supported schemes reduced by 1.8% to £135.2 million (2023: £137.7 million). These loans are often used to spread the impact of tax and other significant liabilities, and the level of take-up will be influenced by both the confidence and the profitability levels of the underlying customer base, both of which are likely to have been adversely affected by the economic climate. However, the underlying requirement for this form of finance remains for the longer-term.

We monitor the potential impact on climate change of the industries we do business with, and support UK SMEs with green propositions, initially with funding for alternative fuelled assets in the transport, manufacturing and construction sectors, as they transition their businesses towards net zero. These types of initiatives are expected to increase going forward as such considerations are prioritised by customers.

Overall sentiment in the SME market remains mixed, with a majority of SMEs becoming more confident, especially for the longer term, whilst others still have a more negative outlook. There are also marked differences between SMEs in different industries. This is confirmed by published SME surveys, which show SMEs' confidence in their business prospects and willingness to invest becoming much more positive in the third calendar quarter of 2024, although concerns over inflation remain.

While potential challenges remain in the operating environment, and the future impact of the new UK Government's policies on the economic prospects for SME businesses and their general appetite for capital investment is not yet clear, our customer base continues to respond robustly. The outlook for SMEs in the UK, while more stable than twelve months ago, still presents significant potential threats. However, the decision announced in the 2024 Spring budget, and endorsed by the incoming administration, to extend full expensing for tax purposes to leased assets, is a welcome initiative and may encourage some growth in new business.

Ultimately, the level of customer understanding in our SME lending business, supported by its ongoing programme of systems and process enhancements, positions it well to deal with customer requirements going forward, building on a positive reputation in the marketplace.

Structured lending

Despite the challenging economic conditions, activity levels in our structured lending business were much higher than in the previous year. Drawn balances increased by 52.0% from £169.0 million at 30 September 2023 to £256.9 million at the end of September 2024, with the total amount of the outstanding facilities increased by 40.0% to £330.0 million (2023: £235.7 million). This resulted from three new facilities totalling £55.0 million which made their first drawings in the period, and a positive retention performance on maturing facilities. All facilities continued to be managed in line with their agreements.

These facilities generally fund non-bank lenders of various kinds, provide us with increased product diversification and are constructed to provide a credit buffer in the event of default in the ultimate customer population. The business has an experienced team of account managers who receive regular reporting on the performance of the security assets, and maintain a high level of contact with clients to safeguard its position. To date we have not recorded any losses on structured lending facilities.

We continue to assess additional opportunities which would broaden the range of products and industries supported, diluting the concentration risk inherent in this form of lending. In the current economic climate these evaluations have a significant focus on the viability of the underlying customer activity.

Motor finance

Our motor finance business is a focussed operation targeting propositions not addressed by mass-market lenders, including specialist makes and vehicle types, such as light commercial vehicles ('LCVs'), motorhomes and leisure vehicles including caravans, static caravans and campervans. New business is largely sourced through specialist brokers, however there is a small flow generated through motor dealerships.

During the early part of the year new business volumes were constrained by market conditions, which continued to be affected by the elevated interest rate environment, resulting in new lending falling by 3.6% to £156.4 million (2023: £162.2 million). However, volumes recovered somewhat in the second half of the year as rate expectations moderated, with new business at £84.8 million, 18.4% higher than the level for the first half and 11.6% higher than the comparable period in 2023. This result exceeded expectations, as the business was focussed on managing its margins, despite some aggressive pricing in the market, which also impacted short-term volumes.

Car finance volumes reported by the FLA fluctuated significantly in the period, with used cars particularly affected. The FLA's data showed new consumer car lending down by 0.6% overall for the year ended 30 September 2024, although the amount of used car business, which represents a significant part of our portfolio, fell by 4.1%.

Our lending to finance battery-powered electric vehicles ('BEVs'), including LCVs, continued to expand in the year. These vehicles increasingly contribute towards greenhouse gas ('GHG') reduction, with data from the Society of Motor Manufacturers and Traders ('SMMT') suggesting that by the year end BEVs formed 21% of all new UK car registrations and 6.2% of those for new LCVs. We advanced £9.1 million of new loans on BEVs in the year, an increase of 16.7% (2023: £7.8 million), reflecting our continuing growth in this part of the motor finance market.

With the business focusing on used vehicles, the proportion of BEV lending will lag the growth in new registrations, however progress continues to be made, with almost 6% of new lending relating to such vehicles. This initiative will support the green aspirations of our customers, as electric vehicles become a more widely viable and popular option and increasing numbers enter the used car market.

Our motor finance business remains a stable, specialist franchise, which is well placed to continue to develop into the future.

Performance

The size of our Commercial Lending book increased by 16.1% in the year, driven by our strategic focus on diversifying into this asset class over recent years. The loan balances in the Commercial Lending segment, analysed by product type, are set out below.

	2024	2023
	£m	£m
Asset leasing	**664.4**	586.0
Professions finance	**53.0**	52.2
CBILS, BBLS and RLS	**41.5**	67.2
Invoice finance	**32.7**	31.7
Unsecured business lending	**25.9**	20.4
Total SME lending	**817.5**	757.5
Development finance	**884.0**	747.8
Structured lending	**256.9**	169.0
Motor finance	**331.4**	297.7
	2,289.8	1,972.0

The economic pressures in the UK generated an increased number of issues on development finance projects during the year, mostly relating to increased build costs or delays. This type of issue is typical of the development finance product in a stressed environment, and our experience is not dissimilar to that of other lenders in the field.

Development finance exposures are regularly monitored internally and graded on a case-by-case basis and by 30 September 2024 there were 19 accounts identified as being at risk and therefore attributed to IFRS 9 Stage 3 for impairment purposes (2023: 12), with one additional long-standing legacy case (2023: one).

These accounts have been carefully examined and projections stressed for the purposes of our IFRS 9 provisioning, generating an additional impairment charge. The majority of issues relate to projects which were evaluated by both us and the customer before late 2022, prior to the sharp rise in input costs and interest rates seen since then, which has led to a significant reduction in headroom. Additional provision has been made to allow for any further such cases, but security across the portfolio more generally remains strong. The average loan to gross development value for the portfolio at the year end was 63.0% (2023: 63.1%), which provides a substantial buffer if projects encounter problems.

In the SME lending and motor finance businesses, credit performance on our finance leasing portfolios has been generally strong, despite the adverse headwinds in the UK economy. Arrears in asset leasing, at 0.14%, remained very low (2023: 0.23%) and motor finance arrears improved slightly to 1.06% (2023: 1.08%). Despite these positive trends, we continue to monitor performance carefully and have processes in place to ensure any customers encountering problems achieve good outcomes.

In January 2024 the FCA announced a review of discretionary commission arrangements across the motor finance industry. While we offered products which might fall within the scope of the review, our expectations of exposure remain low at this stage. The FCA was unable to complete its work in accordance with its originally anticipated timescales and now does not expect to report its conclusions before May 2025. There are also legal issues in progress on an industry-wide basis on related matters, particularly the recent Court of Appeal ruling in the cases of Johnson, Wrench and Hopcraft, which may result in additional exposure.

Where possible we have evaluated this potential probable exposure and determined that no material provision is required. However, it is not possible to quantify the potential impact of any of these matters on our historical motor finance commissions more broadly at this stage, due to the many factors involved and the case specific nature of the information which is available. We will report on any impacts when it is practicable to do so. Further information on these matters is given in note 43 to the accounts.

We continue to closely monitor the government-guaranteed portfolio for any adverse indications. Some lenders have reported significant performance issues with their CBILS, RLS and particularly BBLS lending related to either credit quality or fraud, with over 20% of loans under these schemes resulting in default. However, we have not yet seen any serious impacts of this type, possibly due to our primary focus on lending to existing customers, whose credit history was already well known to us, and to our limited exposure to the BBLS product.

These portfolios contained only £1.3 million of Stage 2 accounts at gross carrying value at 30 September 2024, and only £1.1 million of credit impaired cases. Our total claims made up to 30 September 2024 under the government guarantee were £4.4 million, only 3.4% of the £130.9 million advanced since the schemes began, with £4.1 million of this balance already recovered at the year end.

In the structured lending business, we carefully monitor the performance of the underlying asset pool on a monthly basis, to ensure the value of security remains adequate. We rely on our data monitoring and verification processes to ensure these reviews are able to detect any credit issues. Performance in the year has been broadly in line with expectations, with generally stable metrics across the book and all but one account classified in IFRS 9 Stage 1 at the year end. The one Stage 2 case is being carefully managed, with no losses expected.

For IFRS 9 impairments purposes, 12.7% of gross balances for the Commercial Lending segment as a whole were considered as having an SICR (2023: 9.5%) including 5.1% which were credit impaired (2023: 3.3%). The increase in credit impaired cases related mostly to the development finance projects noted above.

Provision coverage in the division increased to 177 basis points (2023: 156 basis points), principally as a result of the greater number of credit impaired cases. Coverage on fully performing accounts reduced from 82 basis points at 30 September 2023 to 62 basis points at the year end as some of the potential issues identified at the beginning of the year were clarified in the period, or the relevant accounts moved to Stage 2.

A4.2 Funding review

Paragon Bank's retail banking operation is central to our funding strategy. This is supplemented with central bank and wholesale funding and other liquidity sources to create an adaptable and sustainable funding model, including contingent funding options, which can respond to developments in our business, its operating environment and the external economic and regulatory landscape.

Our parent company debt has an investment grade credit rating, confirmed by Fitch in February 2024, which supports its status as a debt issuer. Following the year end this was supplemented when Moody's began coverage, with an initial rating of Baa3 for the Group. These ratings enable us to access cost-effective funding, as well as enhancing options for raising finance for strategic initiatives on a timely basis.

The retail deposit portfolio expanded in the year, both to support new lending and to enable early repayment of central bank borrowings and wholesale debt, reducing funding costs. This was achieved despite continuing cost-of-living pressures on savers, although there was some evidence of increased demand for fixed rate term deposits particularly in the first half as the upward trend in rates began to reverse. This growth in fixed term deposits has generated a flow of funds from clearing banks to smaller deposit takers, whose market focus has historically been on this type of product. We also continued to strengthen our position in the cash ISA market.

At the same time we have continued to pay down wholesale and central bank debt, with substantial early repayments made on Bank of England facilities.

Our funding at 30 September 2024 is summarised as follows:

	2024	2023	2022
	£m	£m	£m
Retail deposit balances	**16,298.0**	13,265.3	10,669.2
Securitised and warehouse funding	**-**	28.0	995.3
Central bank facilities	**755.0**	2,750.0	2,750.0
Tier-2 and retail bonds	**149.9**	258.2	261.5
Sale and repurchase agreements	**100.0**	50.0	-
Total on balance sheet funding	**17,302.9**	16,351.5	14,676.0
Off balance sheet liquidity facilities	**150.0**	150.0	150.0
	17,452.9	16,501.5	14,826.0

The rising interest rate environment in the second half of 2022 and through most of 2023 saw a material switch in savers' preferences towards fixed rate deposits. This slowed, and then reversed, our long-term strategy of increasing the proportion of easy access products, which are repayable on demand, in our funding mix, more in line with normal industry practice. With a growing customer perception that market rates had peaked during 2024, demand for easy access products has strengthened, and we have been able to resume progress towards a higher easy access funding level. At 30 September 2024 the proportion of easy access deposits had risen to 44.6% of total on balance sheet funding (2023: 25.7%).

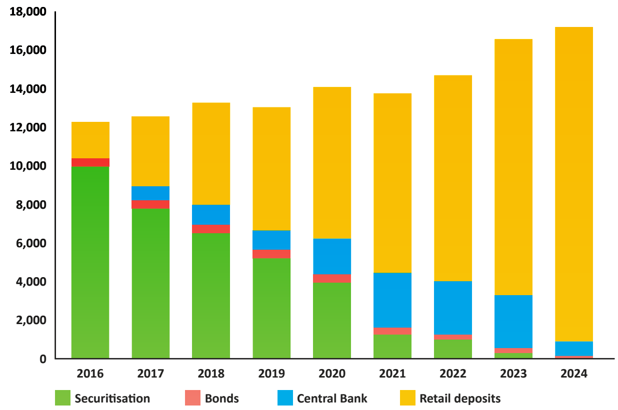
At the end of the year £2,844.8 million of cash and investments were available for liquidity and other purposes (2023: £2,907.7 million), with the liquidity portfolio diversifying to include UK government securities and covered bonds issued by UK financial institutions in the year. The overall level of liquid resources remains broadly similar to that twelve months earlier.

These resources provide sufficient operational liquidity and cash to make further TFSME repayments. The appropriate level of cash reserves is monitored on an ongoing basis as part of our capital and liquidity strategy, which continues to be based on a conservative view of the economic outlook, while allowing for the developing needs of the business.

Our long-term funding strategy, following the granting of our banking licence in 2014, has been to move to using retail deposits as our primary funding source, accessing the debt markets on an opportunistic basis for additional funding requirements. Progress towards this goal is illustrated by the chart below which shows, at each of the financial year ends since 2016, the outstanding funding balance by type.

Funding by type (£m)

30 September 2016 –2024



While the position at 30 September 2024, at 94.2%, represents the maximum proportion of our funding represented by retail balances historically (2023: 81.1%), we continue to evaluate the cost-effectiveness of new wholesale debt and it is likely that this funding source will be accessed again in the future.

We have also focussed on developing contingent funding sources as part of our overall strategy. Holdings of our own securities, investment securities issued by others and assets pre-positioned with the Bank of England provide ready access to additional funding, if required, without incurring the carry cost of additional borrowings.

Hedging strategies continue to form an important part of our balance sheet risk management. This includes the use of derivative financial instruments, such as interest rate swaps, to protect our income and operating model from adverse fluctuation in market interest rates. This was particularly important during the year, with large fluctuations in market expectations for interest rates, and we extended our balance sheet reserves hedging, providing protection to returns in a falling base rate scenario.

A4.2.1 Retail funding

The UK savings market is a reliable, scalable and cost-effective source of funding, with our strategy centred on offering sterling deposit products to UK households through a streamlined online presence. Our in-house offering, supported by an outsourced administration function, is supplemented by additional routes to market provided by a presence on third party platforms. Development of this strategy is focussed on the management of the Bank's digital footprint, supported by investment in our people, systems and relationships.

Our proposition is based on generating and retaining customer accounts by providing competitive interest rates, attractive and innovative products and high-quality customer service. Products currently offered include cash ISAs, term and notice deposits, and easy access accounts, with the substantial majority of balances insured by the Financial Services Compensation Scheme ('FSCS'). We enjoy a significant market position in the cash ISA market, developed over eight years, which has benefitted margins as interest rates have increased in recent periods.

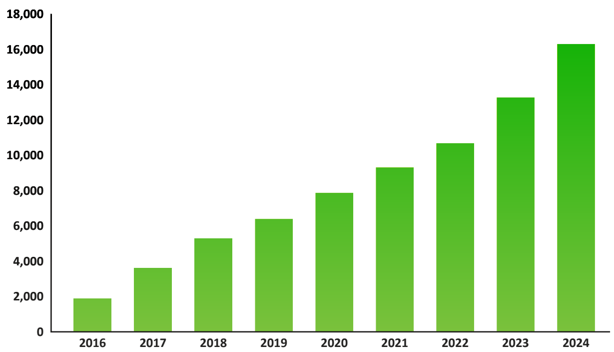
The protection provided to depositors by the FSCS both incentivises larger savers to divide their deposits between several institutions and reduces the risk perceived by customers in using institutions other than major banks and building societies, supporting our proposition. At 30 September 2024, this FSCS protection covered around 95% of our deposit balances.

The retail deposit franchise continued to perform strongly over the year, with balances increasing by 22.9% in the period, meeting our funding needs at an attractive cost, compared to other alternatives. A strong performance in the cash ISA market, which is concentrated in the second half of the year helped drive this performance, with the value of new ISA accounts opened increasing by 36% year-on-year. Market pricing remained volatile with different deposit takers responding to changes in interest rate expectations in different ways and over differing time frames.

The growth of the retail funding balance over recent years is set out below.

Retail deposits (£m)

At 30 September 2016 – 2024



During the year, UK deposit balances from individuals reported by the Bank of England remained relatively stable, despite increasing pressures on living costs. Balances at 30 September 2024 reached £1.75 trillion (2023: £1.67 trillion), a year-on-year increase of 4.9%. While, given the rate of inflation in the period, this represents only a small real-terms increase in total savings, it is not so marked as might have been expected from the pressure on household incomes.

Against this relatively static background, the 22.9% increase in our deposit balance has considerably outpaced the overall market, reflecting both the attractiveness of our proposition and our ongoing programme of business and systems development, which continued in the year.

Within the savings market there was also a move towards fixed-term and notice deposits, with the Bank of England reporting a 5.9% (£13.8 billion) increase in such deposits from individuals during the year, greater than the growth in the overall savings base. National Savings ('NS&I') deposits by individuals, which fulfil a similar function for consumers, also increased in the period but at a slower rate. Volumes of cash ISAs, a product where we have had a consistently strong presence, increased by 16.6%, year-on-year, representing a £379.2 billion market, with our growth significantly outpacing the market.

Despite the broader market trend, we have also seen strong growth in variable interest rate products over the year, as new fixed rates on offer began to anticipate future falls in base rates, and as we maintained our strategic target to increase easy access balances as a proportion of the portfolio.

Customer retention, increasing diversification and the FSCS guarantee are likely to reduce the potential for liquidity impacts and the profiling of our target customers suggests they may be more resilient than average in the event of future economic stresses.

Savings accounts at the financial year end are analysed below.

	Average interest rate		Proportion of deposits	
	2024	2023	**2024**	2023
	%	%	**%**	%
Fixed rate deposits	**4.77**	4.07	**50.7**	65.5
Variable rate deposits	**4.19**	3.74	**49.3**	34.5
All balances	**4.49**	3.95	**100.0**	100.0

Average interest rates paid to our savers continued to move up during the year as base rate rises during 2023 continued to work their way through market pricing, with the rate cuts towards the end of the current year, which began to be reflected in our pricing for new accounts as the period closed, having little impact on average fixed rates as yet. The Bank of England has reported average interest rates at 30 September 2024 for new 2-year fixed rate deposits at 4.00% (2023: 5.50%), and at 2.60% for instant access balances (2023: 2.68%), with similar falls across other product types. These year-end averages for new business will reflect the impact of the most recent base rate cut.

Market savings rates remain at below SONIA levels, with the overnight benchmark decreasing 23 basis points from 5.18% at 30 September 2023 to 4.95% at 30 September 2024. The change in the mix of our accounts, however, means that the average variable rate we were paying at the year end represented a 76 basis point discount to SONIA (2023: 144 basis points) reversing the widening trend seen in the previous financial year. This was an expected effect of the more stable interest rate environment nationally and a similar narrowing of the gap between average deposit and lending rates can be seen across the banking industry.

The average initial term of fixed rate deposits was 20 months (2023: 22 months), with such products still representing over half the deposit book, despite the increase in variable deposits in the period. The proportion of the deposit portfolio represented by these products reduced in the year, with an increase in variable rate balances being strategically targeted.

Significant optionality is provided by our presence on third party investment platforms and digital banks' savings marketplaces, which accounts for almost a quarter of the savings book. These channels provide access to customer demographics which differ from the customers of our in-house offering and between the various platforms, with the more diversified sourcing offering enhanced opportunities to manage inflows and costs.

The difference in profile of the platform customers is highlighted by their average account balances, which can be far lower than that seen on direct business. We have nine such relationships, all of which were in place throughout the year. These channels represent around 23% of the total deposit base (2023: 22%) and we have the systems and control framework in place to further increase our reach through these channels, if appropriate and cost-effective.

Our strategy in the savings market relies on providing a high-quality customer offering and we conduct insight surveys throughout the customer journey. Results in the year are summarised below:

Survey timing		2024	2023
At account opening	Would 'probably' or 'definitely' take a second product	**89%**	88%
	NPS	**+66**	+62
At maturity	Would 'probably' or 'definitely' take a second product	**89%**	88%
	NPS	**+63**	+59

These results maintain our strongly positive position, despite the downward trend of interest rates towards the end of the period, demonstrating that our customer-facing infrastructure serves us well in retaining and developing customers in this active and competitive market.

This is further borne out by our customer retention levels. Despite the short-term nature of the product and the ease with which deposits can be moved between institutions, 42.4% of our deposit balances at 30 September 2024 relate to customers who have been with us for five years or more.

Our service standards were also recognised when Paragon Bank won the 2024 Award for Customer Service at the Savings Champion Awards. Other recognition came in the 2024 MoneyComms Top Performers list, where it was recognised as both 'Best Easy Access Savings Provider' and 'Cash ISA Provider of the Year'.

Retail deposits continue to provide a stable foundation for our funding strategy, allowing volumes and rates to be effectively and flexibly managed. It is a key strategic objective to develop this business further, broadening the product range and employing increased digitalisation to enhance the service proposition and address wider demographics. At the same time we will continue to develop our systems and processes to ensure we are able to address the increasingly sophisticated needs of savers, while expanding our presence on third party platforms.

A4.2.2 Central bank facilities

Wholesale funding comprises principally the Bank of England Term Funding scheme for SMEs ('TFSME'), introduced to support SME lending during the Covid pandemic. We also have access to other, shorter-term, facilities offered by the Bank, which are utilised from time-to-time as part of our overall funding strategy.

TFSME is the main wholesale funding source, with borrowings under this scheme at 30 September 2024 of £750.0 million (2023: £2,750.0 million). Interest is payable on these drawings at the Bank of England base rate, which is currently less attractive than rates available on retail deposits and during the year the outstanding balance has been strategically reduced by £2,000.0 million, providing cost benefits and mitigating the liquidity risk of any payment shock when the majority of the balance reaches its October 2025 maturity date.

We also have access to other Bank of England funding channels, including the Indexed Long-Term Repo ('ILTR') and Short-Term Repo ('STR') schemes, providing shorter term funding for liquidity purposes, with outstanding ILTR drawings at the year end of £5.0 million (2023: £nil).

Central bank facilities will continue to be utilised going forward, in accordance with the objectives of the schemes, where their use is appropriate and cost-effective, or to test operational access.

To provide contingent funding, if and when required, mortgage loans have been pre-positioned with the Bank of England to act as collateral for any future drawings. This provides access to potential liquidity at 30 September 2024 of up to £4,445.9 million (2023: £1,715.4 million). Additionally, our retained AAA-rated asset backed notes and investment securities can also be used to access Bank of England funding arrangements.

A4.2.3 Wholesale funding

Our wholesale funding options include securitisation funding, warehouse bank debt and bond issuance, including senior and subordinated corporate bonds, each of which can be accessed from time-to-time as appropriate.

The Company's Long-Term Issuer Default Rating was confirmed at BBB+ by Fitch in February 2024 with a stable outlook, with Paragon Bank PLC, its principal operating subsidiary, also given a BBB+ rating for the first time as part of this rating exercise. In November 2024, following the year end, Moody's published its first ratings on our business, with the Company assigned a Long-Term Issuer rating of Baa3 and the Bank rated Baa2. These additional ratings will allow more flexibility in funding options in future, while potentially helping to manage funding costs.

During the year the Paragon Mortgages (No. 29) PLC securitisation was issued. This transaction is secured on buy-to-let mortgages and comprises £855.0 million of rated notes, denominated in sterling and bearing interest at a SONIA-linked floating rate. All these notes were retained, and the AAA-rated notes can be used to access contingent funding, through use as security against borrowing and liquidity transactions.

While historically we have been one of the principal issuers of UK residential mortgage-backed securities ('RMBS'), our reliance on this funding source has been significantly reduced over recent periods, with Paragon Mortgages (No. 26) PLC being repaid in the year. This leaves no external securitisation indebtedness, with all outstanding issuances held internally as contingent funding, rather than placed in the market.

The final outstanding retail bond issuance under our Euro Medium-Term Note programme was also paid down in the year, having reached its term. Our only remaining bond debt is the 2021 Tier-2 Bond.

We access the short-term repo market from time-to-time with £100.0 million of sale and repurchase transactions with financial institutions outstanding at the year end (2023: £50.0 million). During the period we broadened the range of counterparties used for such transactions, increasing our liquidity and contingent funding options.

The wholesale funding position currently satisfies only a small part of our overall funding requirements, with the proportion supplied by wholesale debt the lowest since we received our banking licence in 2014. This will reduce further as prepayments of TFSME funding continue to be made. However, wholesale funding capacity remains available for use on a tactical basis, when interest rates and conditions are attractive, and to provide contingent funding and support liquidity.

During the year we have worked to develop increased optionality around our wholesale funding position, obtaining our Moody's ratings, but also investigating the possibilities of joining the thirteen UK banks and building societies authorised as covered bond issuers by the FCA. Our work on structuring has been completed, and a formal application for authorisation submitted to the FCA, with the process expected to be completed in the coming financial year. This will provide a flexible funding route for use in future periods, as required.

While capital markets in the UK remained volatile in the period, influenced by speculation over the likely direction of interest rates, the outlook towards the year end was more positive than for some time, with demand for credit risk solid across most classes of debt, and margins tightening. Coupled with movements in retail deposit rates, this has served to make wholesale funding relatively more attractive than it has been for some time, and our strategy is to maintain as wide a range of funding and contingent funding options as possible.

A4.2.4 Derivatives and hedging

Derivative assets and liabilities continue to be used to hedge interest rate risk arising from fixed rate loans and deposits. We pre-hedge a proportion of our lending pipeline, which can result in derivative positions being established before loans are completed.

While this strategy has not materially changed in the period, the movements in interest rate expectations over the most recent financial periods have resulted in large derivative asset balances being carried on the balance sheet at fair value, although the 30 September 2024 position was reduced from the previous financial year end as the position unwound, and as swap rates trended lower overall during the year.

The size of these balances and the volatility in rates has also led to significant profit and loss account impacts. However, any such gains or losses, which tend to zero over time, are ancillary to our lending and deposit-taking activities and we undertake no trading in derivatives.

We also hedge our tier-2 fixed interest rate borrowings, and have hedged the interest rate risk on the investments in gilts acquired as part of the liquidity buffer in the year.

During the year we have continued to develop our balance sheet hedging strategy. This is intended to protect net interest margins from the impact of future falls in interest rates on equity, which otherwise would cause a fixed / floating mismatch between the asset and liability sides of the balance sheet.

In order to mitigate this risk, an amount of fixed rate mortgage lending has been attributed to provide natural equity hedging, forming a net free reserve hedge. At 30 September 2024, £1,200.0 million had been attributed in this way (2023: £313.0 million). The year-end hedge represents our current target hedging level, covering the majority of the equity balance. However, this form of hedging has no direct accounting impact.

Further information on all the above borrowings is given in notes 34 to 39, while derivatives and hedging activities are described in more detail in note 26.

A4.3 Capital and liquidity review

Strong financial foundations form one of the three pillars of our strategy, with building and maintaining strong levels of core capital through the economic cycle a key strategic priority. We manage our balance sheet to maintain capital strength, ensuring that our regulatory capital and liquidity positions are sufficient to safeguard depositors and provide capacity to meet our strategic objectives and other opportunities going forward.

The year has seen continuing developments in the UK's economic environment, with the majority of metrics stabilising and sentiment becoming more cautiously optimistic towards the end of the year. However the July UK General Election has brought changes in political priorities for the country, the impact of which is not yet clear, while the Basel 3.1 process to reform the regulatory capital regime has continued to progress and while there was a delay due to the election, near-final proposals were published on 12 September 2024.

In the face of the potential uncertainties inherent in this environment, we have remained focussed on ensuring that our capital strength remains sufficient to withstand potential pressures and address future changes in requirements. At the same time we have been able to continue our stated distribution policy, approving buy-backs of up to £100.0 million in the period and announcing dividends for the period in line with policy.

For regulatory purposes our capital comprises shareholders' equity and a tier-2 bond. We have no outstanding Additional Tier 1 ('AT1') issuance, but have the capacity to issue such securities, if considered appropriate, under an authority granted by shareholders at the 2024 Annual General Meeting ('AGM'), which will be proposed for renewal at the 2025 meeting.

A4.3.1 Regulatory capital

During the year we have maintained strong regulatory capital ratios, with capital balances being carefully managed. Our business is subject to supervision by the Prudential Regulation Authority ('PRA') and, as part of this supervision, the regulator sets a Total Capital Requirement ('TCR'), the minimum amount of regulatory capital which we must hold. This is defined under the international Basel 3 rules, implemented through the PRA Rulebook.

The TCR is held in order to safeguard depositors in the event of the business incurring severe losses and includes elements determined based on our Total Risk Exposure ('TRE') measure, together with fixed elements. The TCR is specific to our business and is set on the basis of periodic supervisory reviews carried out by the regulator, with the most recent results received in 2021.

Our TCR at 30 September 2024 represents 8.7% of TRE, similar to a year earlier (2023: 8.8%), compared to the minimum TCR allowed under the Basel 3 framework of 8.0%. This low TCR level gives us advantages in capital management and reflects the regulator's assessment of our risk strategy and their view of the appropriateness of our systems for the management of capital and risk.

We were granted transitional relief for the capital impacts of the adoption of the IFRS 9 impairment regime, along with most other UK banks. Additional relief was granted in 2020 for the impact on capital of provisions created in response to the Covid pandemic. This relief is being phased out, year-by-year, while any reversal of Covid-related provisions will generate a corresponding reduction in relief. The reliefs have a minimal impact on the capital position at 30 September 2024, and were phased out entirely from 1 October 2024.

The PRA requires firms to disclose capital measures both on the regulatory basis and as if these reliefs had not been given, referred to as the 'fully loaded' basis. The value of the reliefs tapers over time, and the difference between measures on the regulatory and fully loaded bases will converge for the financial year ending 30 September 2025. Our principal capital measures, CET1 and Total Regulatory Capital ('TRC') are set out below on both bases.

	Regulatory basis		Fully loaded basis	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Capital				
CET1 capital	**1,177.9**	1,188.9	**1,175.2**	1,175.4
Total Regulatory Capital ('TRC')	**1,327.9**	1,338.9	**1,325.2**	1,325.4
Exposure				
TRE	**8,278.7**	7,668.7	**8,276.0**	7,655.3
Requirements				
TCR	**724.1**	673.4	**723.8**	672.2
Capital buffers	**372.5**	345.1	**372.4**	344.5

Our CET1 capital comprises equity shareholders' funds, adjusted as required by the Regulatory Capital Rules of the PRA and can be used for all capital purposes. TRC, in addition, includes tier-2 capital in the form of our Tier-2 Bond. This tier-2 capital can be used to meet up to 25% of the TCR. Capital levels on both measures in the year have remained broadly stable, with positive operational performance continuing to support the capital position, even after allowing for paid and proposed distributions.

The year-on-year increase in TCR requirements shown above relates principally to the growth in the asset base over the period, mitigated by a reduction in derivative exposures.

CET1 capital must also cover the buffers required by the 'Capital Buffers' part of the PRA Rulebook, the Counter-Cyclical ('CCyB') and Capital Conservation ('CCoB') buffers. These apply to all firms and are based on a percentage of their TRE. The CCoB remained at 2.5%, its long-term rate, throughout the year (2023: 2.5%), while the UK CCyB remained at 2.0% (2023: 2.0%), which the Financial Policy Committee ('FPC') of the Bank of England has stated that it expects to be its long-term standard level. Further buffers may be set by the PRA on a firm-by-firm basis but cannot be disclosed.

Our capital ratios, after allowing for the proposed dividend for the year, but excluding the effect of future share buy-backs, are set out below.

	Basic		Fully loaded	
	2024	2023	**2024**	2023
CET1 ratio	**14.2%**	15.5%	**14.2%**	15.4%
Total capital ratio	**16.0%**	17.5%	**16.0%**	17.3%
UK leverage ratio	**7.0%**	7.6%	**7.0%**	7.6%

Our capital ratios show a continued reversion to more normal levels over the year. This reflects the inclusion in trading profits of the unwind of fair value gains on hedge accounting recognised in the year ended 30 September 2022, which temporarily inflated capital at previous year ends. As the IFRS 9 reliefs are phased out the fully loaded and regulatory bases are automatically converging.

The PRA has published near-final proposals for changes to its Rulebook to reflect the impact of the revisions to the Basel 3 framework made by the Basel Committee on Banking Supervision ('BCBS'), referred to as Basel 3.1. These changes would affect both firms applying Internal Ratings Based ('IRB') approaches to capital and those using the Standardised Approach. The new requirements are to be phased in over a five-year period, currently expected to commence from 1 January 2026.

The PRA proposals, which principally impact on buy-to-let lending and lending to small businesses, have been evaluated as part of our capital planning. We estimate that the changes would reduce the CET1 ratio by 104 basis points, based on the 30 September 2024 position. However, our forecasts indicate that sufficient capital is being held to meet the proposed scenario.

We continue to refine our IRB submission with close engagement with the PRA. In addition to the submission for the buy-to-let approach, which is currently being processed, we have also prepared much of the documentation to support an IRB approach for development finance, which represents the next stage of our IRB roadmap.

The PRA has also set out its future approach to the supervision of smaller UK institutions, following the country's exit from the EU. The regulator has defined a category of 'Small Domestic Deposit Taker' ('SDDT') which will be subject to a lighter regulatory touch in some areas. To apply for designation as an SDDT an institution must operate only in the UK, have limited trading activities and less than £20.0 billion of assets, and must not operate an IRB approach to credit risk. The introduction of the SDDT regime is planned for January 2027.

To reduce disruption over the period when both the SDDT and Basel 3.1 are being introduced, the PRA has also introduced an Interim Capital Regime ('ICR') which firms can join subject to meeting the SDDT eligibility criteria, and then transition to either the SDDT or full Basel 3.1 capital basis on the implementation of SDDT. The ICR will allow qualifying firms to continue managing capital on a basis equivalent to the current regime until the SDDT capital regime is implemented, rather than transitioning to the Basel 3.1 rules from 1 January 2026.

We believe that we would meet the criteria to qualify as an SDDT as at 30 September 2024, and we expect to apply for ICR approval in the short term. Longer-term, our goal is to move to a Basel 3.1 IRB basis for capital, but this will be subject to the regulator endorsing our methodology.

A4.3.2 Liquidity

We hold liquid assets to meet cash requirements in the short and long term, as well as to provide a buffer under stress. There is also a regulatory requirement to hold liquidity in Paragon Bank. Our policy is to maintain strong levels of liquidity cover, and this policy impacts operational capital and funding requirements.

Our liquidity is principally held in the form of deposits at the Bank of England, although during the year the position was diversified with the purchase of highly rated gilts and UK covered bonds.

The Board regularly reviews liquidity risk appetite and closely monitors a number of key internal and external measures. The most significant of these, which are calculated for Paragon Bank's regulatory group on a basis which is standardised across the banking industry, are the Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR').

The LCR measures short-term resilience and compares available highly liquid assets to forecast short-term outflows, calculated according to a prescribed formula, with a 30-day horizon. The monthly average of the Bank's LCR for the period was 211.5% compared to 193.7% during the 2023 financial year. This increase reflects higher levels of liquidity built up during the year to facilitate debt repayments, in particular those on our TFSME borrowings. Following the completion of these payments in the year, the coverage value was moving downwards by year end. The LCR in the year also includes the impact of £103.6 million of swap collateral held in cash (2023: £383.4 million), which also reduced through the year.

The NSFR is a longer-term measure of liquidity with a one-year horizon, supporting the management of balance sheet maturities. At 30 September 2024 the Bank's NSFR stood at 139.5% (30 September 2023: 123.4%), higher than its position twelve months earlier, reflecting a marginal strengthening of the position in the year.

A4.3.3 Dividends and distribution policy

The sustainable enhancement of shareholder returns is fundamental to our capital strategy, while protecting the capital base. The continuing positive results and our capital outlook support the ongoing return of capital to investors, both as dividends and through our share buy-back programme.

Our long-standing dividend policy is to distribute 40% of consolidated underlying earnings to shareholders in ordinary circumstances, achieving a dividend cover ratio of approximately 2.5 times. We use market buy-backs of shares to manage overall capital levels, where these enhance shareholder value and excess capital is available, addressing the expectations and requirements of different types of investor.

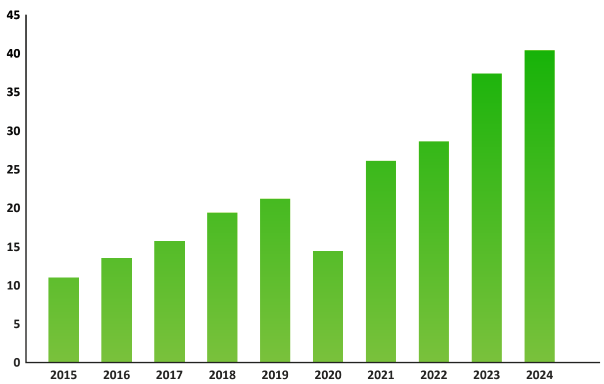
An interim dividend for the year of 13.2 pence per share (2023: 11.0 pence per share) was paid in July 2024, in line with our policy of paying an interim dividend equal to half the previous year's final dividend. For our final dividend the Board is proposing, subject to approval at the AGM on 5 March 2025, a final dividend for the year of 27.2 pence per share (2023: 26.4 pence per share). This would give a total dividend of 40.4 pence per share (2023: 37.4 pence per share). We have disregarded fair value losses in this calculation, in the same way as we have disregarded similar gains in earlier periods.

The dividend proposed therefore represents approximately 40% of the profit before fair value losses, giving a dividend cover on the adjusted basis of 2.50 times (2023: 2.52 times), in line with policy (Appendix D).

The progress of the dividend for the year is shown in the chart below.

Dividend for the year (pence)

In respect of the years 2015 –2024



The directors have considered the distributable reserves and available cash and other resources of the Company and concluded that the proposed dividend is appropriate.

In December 2023 the Board authorised a buy-back programme for the year of £50.0 million, which was extended to £100.0 million in June 2024. £76.6 million, including costs, was expended during the year (note 47) (2023: £111.5 million). An irrevocable authority was given to our brokers at the year end to continue this programme, and by the time that regulatory authority for the programme had expired, £7.5 million of the programme remained outstanding.

As part of the review of capital management described above, the Board decided that it was appropriate to complete the remaining balance of the 2024 programme and to authorise a further share buy-back programme of up to £50.0 million for the 2025 financial year. These purchases will commence shortly after the announcement of the 2024 year-end results.

The Group has the general authority to make such purchases, granted at the AGM on 6 March 2024. Any purchases made under these programmes will be announced through the Regulatory News Service ('RNS') of the London Stock Exchange and the shares will initially be held in treasury.

During November 2024, the Board affirmed the existing dividend policy going forward, subject to an assessment of prevailing conditions at the time, including future operational and regulatory capital requirements, business strategy and external economic risks.

A4.4 Financial results

Our results for the financial year ended 30 September 2024 continued the positive performance of recent periods, with underlying profits at a record level and margins remaining strong. We continued to deliver on our strategic targets despite the ongoing impacts of higher interest rates and prices on our customers and their clients, which should leave us well placed facing a seemingly more stable economic situation.

Underlying profit (Appendix A), which excludes fair value gains, increased by 5.4% in the year, reaching £292.7 million (2023: £277.6 million). This, together with the impact of share buy-backs in the period, generated growth in underlying earnings per share, which broke the £1 per share level for the first time, reaching 101.1 pence per share, 7.3% greater than in the previous year (2023: 94.2 pence per share).

The statutory results for the year continue to be affected by the accounting treatment required for pipeline hedging. We have historically hedged a substantial part of our fixed rate lending pipeline with interest rate derivatives, and these can lead to substantial fair value gains being recorded in a rapidly changing interest rate environment, such as those that we recorded in the 2022 financial year.

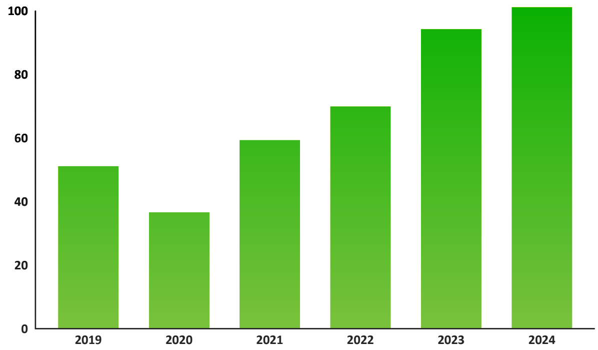
The actual cash flows from hedging will impact on net margin through the subsequent life of the loan and the fair value gains will unwind. The current year has seen the unwinding process continue, and this together with changes in expectations for future interest rates has resulted in fair value losses being recorded. These unwinding losses reduced profit before tax on the statutory basis to £253.8 million (2023: £199.9 million), with earnings per share at 88.5 pence per share (2023: 68.7 pence per share).

These fair value items have consistently been excluded from our underlying results as the timing of their recognition does not reflect that of their economic impact on our business.

The progression of our underlying earnings per share over the last six years is shown below.

Underlying earnings per share (pence)

Year ended 30 September 2019 –2024



A4.4.1 Consolidated results

For the year ended 30 September 2024

	2024 £m	2023 £m
Interest receivable	**1,314.7**	1,010.6
Interest payable and similar charges	**(831.5)**	(561.7)
Net interest income	**483.2**	448.9
Net leasing income	**6.2**	5.6
Other income	**7.0**	11.5
Total operating income	**496.4**	466.0
Operating expenses	**(179.2)**	(170.4)
Provisions for losses	**(24.5)**	(18.0)
Underlying profit	**292.7**	277.6
Fair value net (losses)	**(38.9)**	(77.7)
Operating profit being profit on ordinary activities before taxation	**253.8**	199.9
Tax charge on profit on ordinary activities	**(67.8)**	(46.0)
Profit on ordinary activities after taxation	**186.0**	153.9

	2024	2023
Dividend – rate per share for the year	**40.4p**	37.4p
Basic earnings per share	**88.5p**	68.7p
Diluted earnings per share	**85.2p**	66.3p

Income

Total operating income increased by 6.5% in the year, reaching £496.4 million, compared to the £466.0 million recorded in the previous year. Net interest on our loan books continues to be the principal element of our income. This increased by 7.6% in the year, from £448.9 million in 2023 to £483.2 million in 2024. This growth was primarily driven by net loan book growth, with average outstanding balances increasing by 5.1% to £15,289.9 million (2023: £14,542.3 million) (Appendix B).

Net interest margin ('NIM') increased overall by 7 basis points, a slower rate of improvement than in recent years, as a more stable interest rate environment impacted on funding costs in the retail deposit market. Given our approach to funding allocation, this led to slightly reduced NIM in both our divisions, with Commercial Lending particularly impacted, but correspondingly greater unallocated income being reported, as earnings on excess liquidity are not typically allocated to operating segments.

The progression of the Group's NIM over the last five years is set out below.

	Total basis points
Year ended 30 September	
2024	**316**
2023	309
2022	269
2021	239
2020	224

The long-term improvement in NIM is a result of the careful management of yields in the business, a prudent hedging strategy and improvements in our cost of funds as the distribution of our funding sources has developed over time. This is supported by the careful strategic allocation of our capital and management of our lending risk appetites to optimise overall returns.

Interest income from our loan assets is accounted for using the effective interest rate method set out in IFRS 9. This spreads the impact of initial and terminal fees received from the customer or paid to third parties through the life of the account and, where an account has different interest charging bases during its life, such as the majority of our buy-to-let mortgage accounts which have a fixed initial rate, attempts to spread this effect. The pattern of income recognition is therefore based on estimates of customer settlement behaviour and future charging rates, and where the economic environment is likely to cause these to vary, as in the current year, the rates at which income is included in profit are adjusted.

Other operating income which represents a combination of operating lease income and other sundry fees reduced to £13.2 million (2023: £17.1 million). This movement was principally a result of reduced third party servicing fees as contracts reached their end dates.

Costs

Our operating costs increased by 5.2% in the year to £179.2 million (2023: £170.4 million). The largest item within costs continues to be employment costs, which at £111.1 million form 65.2% of the total (2023: £108.3 million), a similar level to the previous year. The 2.6% increase in employment costs arose from market-based pay increases granted to almost all employees at the beginning of the period, and £1.5 million of additional costs for National Insurance on share-based awards, driven by the rising share price in the period. These were offset by the impact of a reduction in staff numbers with the average headcount falling by 5.4% to 1,444 (2023: 1,527).

From 1 March 2024 the PRA introduced a funding levy to replace the cash ratio deposit ('CRD') scheme. This levy forms part of the Group's costs, unlike the CRD, resulting in a £2.1 million increase in costs for the year.

Costs not related to employment, excluding the levy, at £66.0 million, were 14.8% higher than those recorded in the 2023 financial year, when one-off costs in that period are excluded (2023: £57.5 million, excluding one-off items).

Part of this increase represents the impact of inflation in the UK, which has been particularly severe for professional services, but it is also affected by increased outsourced administration costs on our savings operations, which increase in line with the size of our savings balance.

Spend on our digitalisation programme remained a significant part of the cost base, with non-employment related IT costs of £12.6 million incurred (2023: £13.0 million). The digitalisation programme continues to deliver new systems and enhancements across our businesses, and significant milestones were achieved in the year.

The progress of our cost:income ratio over the last five years is set out below.

	Underlying	Statutory
	%	%
Year ended 30 September		
2024	**36.1**	**36.1**
2023	36.6	36.6
2022	39.4	38.9
2021	41.7	41.7
2020	43.0	43.0

Our cost:income ratio continued its improvement over the year, despite the level of expenditure incurred to develop the business. This was partly a result of margins widening, but also as a result of cost control actions which we took last year.

Cost control is a strategic priority, but we recognise that our cost base must also adapt to deliver our strategic priorities and to meet regulatory expectations. A sustainably lower cost:income ratio is therefore a long-term aspiration, rather than a short-term priority, particularly in the face of competitive markets for the kinds of specialist people and services that we need to operate.

Impairment provisions

The impairment charge recognised in our accounts for the year ended 30 September 2024 was £24.5 million, an increase of 36.1% (2023: £18.0 million). This increase is largely a result of a higher incidence of problem cases in our development finance operation, together with an increased number of receiver of rent appointments on legacy buy-to-let mortgage cases.

Apart from these cases, performance of our loan books has remained strong, with arrears marginally increased, but, in common with other lenders, not to the extent some commentators had predicted for the market. The current economic outlook also benefits our impairment position, with inflation at a lower level than seen recently and interest rates predicted as more likely to fall than rise, meaning future affordability concerns are allayed to some extent.

However, it is not clear to what extent the rises in consumer and business costs over recent years have fully impacted on credit quality, and with new administrations in place or incoming in the UK and USA, amongst other countries, the present, generally positive, economic outlook may be subject to new pressures.

Our recognition of credit losses is governed by the accounting standard IFRS 9, which requires the directors to take a view on the future performance of our loan assets and to base provisioning on expected credit losses ('ECL'). Where the economic outlook is complex, or where there is little relevant historical data to base loss predictions upon, this can be a challenging exercise.

The progress of the impairment charge and cost of risk in the last five years is set out below.

	Charge / (release)	Cost of risk
	£m	%
Year ended 30 September		
2024	**24.5**	**0.16**
2023	18.0	0.12
2022	14.0	0.10
2021	(4.7)	(0.04)
2020	48.3	0.39

The fluctuations shown above demonstrate the impact of various sources of economic and political uncertainty on our credit profile as they arise and then resolve over time. The high charge in 2020 represented the initial onset of the Covid pandemic, whilst in 2021 the position appeared to have become a little more stable. However, September 2022 saw the beginning of a period of much higher interest rates and significant inflation, leading to significantly increased economic headwinds, the impacts of which continue to be felt.

Multiple economic scenarios and impacts

Statistical models are used to support management's estimation of ECLs, where possible. These are kept under review and regularly updated. The models project losses for our largest books based on customer performance to the reporting date and anticipated future economic conditions. The use of these models therefore requires the use of a range of forward-looking economic scenarios which are each evaluated and then weighted to form an overall projection.

For portfolios where detailed models cannot be used, generally because the number of accounts is small and historic data insufficient for statistical forecasting methodologies to be validly applied, we also consider the potential impact of these economic scenarios, if this is likely to be significant. In the current period this applied particularly to the development finance portfolio where the potential impacts of higher build costs, falling development values and longer project timescales were considered in our assessment of exposures.

At 30 September 2024, there was generally more consensus on the UK's economic outlook than at the previous year end.

However, the majority of these forecasts remain cautious, with a significant potential for interest rates to remain high for some time, inflation to decline from current levels only slowly, house prices to remain subdued and growth to remain minimal. This, however, is an unfamiliar position for the UK economy, and the consequences for longer-term prospects remain an area of significant disagreement amongst experts.

These longer-term uncertainties include the potential for wider geopolitical events, including the conflicts in Eastern Europe and the Middle East, and the results of elections in the USA and other democracies during the year, to impact further on the UK economy. Closer to home, the detailed economic policies to be adopted by the new UK Government, and their potential effects, are not yet entirely clear. These factors may cause outturns to be significantly divergent from consensus economic forecasts.

To reflect the possible range of economic outcomes, four scenarios have been constructed for provisioning purposes, based on a number of forecasts from public and private bodies, synthesised to produce internally coherent sets of data. The general trend of the central forecast follows that published by the Bank of England in August 2024. This reflects the recent easing of monetary policy and recovering growth. Unemployment remains low, but trends upwards through the forecast period, inflation is generally stable and bank rates continue to fall. House prices, which have been more resilient than many had forecast, continue to increase modestly. This is rather more optimistic than the central forecast used in September 2023.

The upside and downside scenarios are derived from the central forecast, as they have been in previous periods. The shape of the curves representing all three scenarios are similar across the forecast period, but the upside scenario assumes inflation falling more rapidly, driving faster growth and enabling the Bank of England to cut the base rate further and faster than in the base case, while house prices recover more strongly. Conversely, the downside case represents increased pressure on CPI, leading to current levels of base rates persisting for longer, with reduced economic confidence impacting on both house price growth and unemployment levels.

The severe scenario has been derived from the most recent Annual Cyclical Scenario ('ACS') published by the Bank of England, as in recent periods. The supply shock scenario included in the ACS published in July 2024 forms the basis for this scenario and includes persistently high interest rates, causing a pronounced recession impacting on growth and employment levels, with a significant fall in house prices.

The weightings applied to each scenario have been reviewed and revised. The consensus view for the UK economic outlook is both more settled and more benign than it was at 30 September 2023. However, the potential for significant downside impacts remains, to the extent of producing substantially different outcomes. On balance this represents an appropriate point to begin to move back towards a more normal set of economic weightings, and the impact of the severe scenario has been reduced. The forecast economic assumptions within each scenario, and the weightings applied, are set out in more detail in note 24.

To illustrate the impact of these scenarios on the IFRS 9 modelling, the impairment provisions before judgemental adjustments are set out below on the weighted average basis, and also shown on a single scenario basis, weighting each of the central and severe scenarios at 100%.

	2024		2023	
	Unadjusted provision £m	**Cover ratio**	Unadjusted provision £m	Cover ratio
Weighted average	**70.0**	**0.45%**	67.1	0.44%
Central scenario	**64.8**	**0.41%**	60.9	0.41%
Severe scenario	**93.9**	**0.59%**	89.3	0.60%

Despite the economic pressures on customers during the year, coverage levels remain similar to those seen at 30 September 2023. This will partly be a result of the stable or positively trending scenarios which reduce predicted default rates.

There is little recent historical evidence of the impact of a sustained period of high interest rates and inflation on customer credit, and both products and regulatory expectations have evolved significantly since interest rates last reached current levels. Our models have therefore been derived from datasets which include very few observations representative of the current type of economic environment and little evidence on which to base conclusions on how rapidly or severely customer behaviour might respond to the types of economic changes we are currently seeing.

The distribution of gross balances by IFRS 9 stage (defined in note 22) produced by our impairment methodology at the two most recent year ends is set out below.

	2024	2023
Stage 1	**93.2%**	93.5%
Stage 2	**4.9%**	5.0%
Stage 3	**1.8%**	1.3%
POCI	**0.1%**	0.2%
Total	**100.0%**	100.0%

While Stage 2 cases have remained stable as a proportion of the book, the increased proportion of Stage 3 cases shows a higher incidence of customers impacted by the economic pressures seen over the last two years. However, these impacts remain modest overall.

The stability of Stage 2 is a function of the assumption of future stable or slowly declining interest rates and inflation, and the current relatively low level of arrears. This reduces the calculated provision and management must assess whether the result is appropriate, given the economic outlook, or whether adjustments over and above our normal provisioning approach are required.

Judgemental adjustments

Where key economic measures are at materially different levels to those which existed when the impairment models were created, management may add judgemental overlays to calculated impairment levels. These are required where it is considered, taking account of all available evidence, that current or anticipated levels of delinquency and / or loss in the modelled portfolios could exceed those implied by the model outputs, or where the normal methodology for provisioning on non-modelled books does not cover all identified risks.

Examples of such circumstances include the period of the Covid pandemic and its aftermath, and the recent period of rapid growth in interest rates and inflation. Whilst the current economic outlook at 30 September 2024 appears more stable than was seen in those periods, the cumulative effect of a longer period of elevated interest rates is also potentially challenging for the effectiveness of the provisioning models, and we have seen particular challenges in the cohort of development finance lending approved just before inflation and interest rates started to rise.

Having reviewed these potential additional impacts we have:

- Maintained the adjustment in our buy-to-let mortgage book at £3.0 million, to allow for the type of idiosyncratic impacts affecting legacy portfolios which we saw in the year and which might not be handled well by the approach in the model (2023: £3.0 million)
- Maintained the £1.0 million adjustment in our motor finance book while the ability of our new motor finance model, which was introduced towards the end of the year, to respond well to the current economic situation is assessed (2023: £1.0 million)
- Reduced the adjustment to the modelled SME lending outputs to £1.0 million, as a result of the stable performance in the year and satisfactory performance of the new model introduced in 2023 (2023: £2.5 million)
- Applied a temporary uplift to provision floors in the non-modelled development finance book, to allow for increased incidence of distress in projects planned and underwritten before the impact of rapidly increasing construction costs and interest rates in the period beginning in late 2022. This increased the impairment provision by £1.5 million (2023: £nil)

The judgemental adjustments generated by this process, analysed by division are summarised below.

	2024	2023
	£m	£m
Mortgage Lending	**3.0**	3.0
Commercial Lending	**3.5**	3.5
	6.5	6.5

We continue to monitor the appropriateness and scale of each of these overlays and consider the extent to which any of the elements giving rise to them can or should be incorporated into models and standard processes.

Ratios and trends

The results of the ECL modelling and other provisioning, including the impact of the economic scenarios described above, together with the adjustments adopted to address uncertainties over the future performance of accounts, has resulted in the overall provision amounts and coverage ratios set out below.

	2024	2023	2022
	£m	£m	£m
Calculated provision	**70.0**	67.1	48.5
Judgemental adjustments	**6.5**	6.5	15.0
Total	**76.5**	73.6	63.5
Cover ratio			
Mortgage Lending	**0.26%**	0.33%	0.31%
Commercial Lending	**1.77%**	1.56%	1.34%
Total	**0.48%**	0.49%	0.44%

Following the judgemental adjustments, these ratios remain broadly in line with those seen in recent periods, although within the numbers the provision on most performing portfolios has reduced slightly, with more of the provision attributable to the increased value of credit impaired cases.

These coverage levels remain higher than the 0.34% coverage ratio observed in September 2019, before the outbreak of the pandemic, in what was a lower interest rate environment. Further, this level was recorded when there was less security cover in the buy-to-let loan book, with the average loan-to-value ratio of 67.4% at that time being higher than the 30 September 2024 value of 62.8% (2023: 62.8%).

Future levels of coverage will be dependent on the performance of the UK economy and its impact on our business, our customers and their markets.

Fair value movements

The fair value line in our profit and loss account primarily reports fair value movements arising from interest rate hedging arrangements. These are put in place to protect margins when fixed interest rate products are offered in either our savings or lending markets, enabling us to continue to honour offers to customers in the event of significant interest rate movements. We also hedge certain fixed rate investments and liabilities.

We have a cautious approach to interest rate risk and consider our exposures to be appropriately economically hedged. No speculative derivative trading is undertaken, and all fair value movements relate to banking book exposures.

The accounting entries included in this balance are primarily non-cash items, which reverse over the life of the hedging arrangement and such movements are essentially considered to represent the anticipation of gains belonging economically to later accounting periods and their subsequent unwinding. They are therefore excluded from underlying results.

During the 2022 financial year, particularly during the second half, there was a significant level of volatility in UK benchmark interest rate expectations, resulting in a fair value gain of £191.9 million being recorded in the year. This impact was amplified by the approach adopted to pipeline hedging at that time and the retention strategy applied to five-year fixed loans maturing in that period, which meant that the pipeline was larger and of longer duration (and hence more exposed to movements in rates) than at most other times.

In the year ended 30 September 2024 the unwinding of this large gain, which had begun in 2023, continued to impact the fair value line. Coupled with the accounting hedge ineffectiveness in the period and the effect of new pipeline hedges, this resulted in a loss on fair value items of £38.9 million being reported (2023: £77.7 million).

We have £126.6 million (at net notional value) of derivative contracts at 30 September 2024 which are unmatched for hedge accounting, although form part of the economic hedging position (2023: £14.6 million). These derivatives must be carried at a fair value based on expected cash flows over their contractual lives. As a substantial proportion of this balance has a lifetime of two to five years, volatility in the interest rate markets can generate substantial month-to-month fluctuations in this valuation which have to be included in profit.

Tax

We operate only in the UK and materially all profit falls within the scope of UK taxation. The standard rate of corporation tax applicable to the business in the year was 25.0% (2023: 22.0%), with the surcharge applicable to the profits of Paragon Bank at 3.0% (2023: 5.5%). The effective tax rate applied to our profits has increased from 23.0% in 2023 to 26.7% during 2024, with the increase principally relating to changes in UK tax rates (note 13).

As the bulk of the fair value loss arose in Paragon Bank, the banking surcharge means it is subject to a higher rate of tax than the overall effective rate for the Group. This meant the effective tax rate on underlying profit was 27.4% (2023: 23.9%), with the change mostly driven by the increased UK corporation tax rate (Appendix A).

Results

Profit before tax for the year on the statutory basis was £253.8 million (2023: £199.9 million), with the £15.1 million growth in profit at the underlying level enhanced by a £38.8 million reduction in the loss on fair value items. Profit after tax was increased by 20.9% at £186.0 million (2023: £153.9 million). In addition, other comprehensive income of £5.4 million was recorded, relating to valuation gains on the defined benefit pension scheme (the 'Plan').

Consolidated accounting equity at the year end, after dividends and share buy-backs was £1,419.5 million (2023: £1,410.6 million), and consolidated tangible equity was £1,248.0 million (2023: £1,242.4 million), representing a tangible net asset value of £6.11 per share (2023: £5.79 per share) and a net asset value on the statutory basis of £6.95 per share (2023: £6.57 per share) (Appendix E).

A4.4.2 Assets and liabilities

The main driver of movements in our balance sheet is the size and composition of the loan book. This, together with policies on capital and liquidity, determines our funding requirements and hence the level of our liabilities.

The loan portfolio grew by 5.6% year-on-year during 2024, with growth in both Mortgage Lending and Commercial Lending. More detail on these movements is given in the business review in Section A4.1.

Our assets and liabilities at the end of the financial year are summarised below.

Summary balance sheet
30 September 2024

	2024	2023	2022
	£m	£m	£m
Investment in customer loans			
Mortgage Lending	**13,415.7**	12,902.3	12,328.7
Commercial Lending	**2,289.8**	1,972.0	1,881.6
	15,705.5	14,874.3	14,210.3
Hedging adjustments	**(75.2)**	(379.3)	(559.9)
Derivative financial assets	**391.8**	615.4	779.0
Cash and investments	**2,952.8**	2,994.3	1,930.9
Pension surplus	**22.2**	12.7	7.1
Intangible assets	**171.5**	168.2	170.2
Other assets	**101.4**	134.6	116.0
Total assets	**19,270.0**	18,420.2	16,653.6
Equity	**1,419.5**	1,410.6	1,417.3
Retail deposits	**16,298.0**	13,265.3	10,669.2
Hedging adjustments	**16.7**	(30.9)	(99.7)
Other borrowings	**1,005.3**	3,086.4	4,007.2
Derivative financial liabilities	**99.7**	39.9	102.1
Other liabilities	**430.8**	648.9	557.5
Total equity and liabilities	**19,270.0**	18,420.2	16,653.6

Funding structure and cash resources

Our retail and wholesale funding balance increased by 5.8% during the year, a similar increase to the growth in the loan book. The year-end liquidity buffer had been diversified to include investment securities for the first time. At 30 September 2024, £427.4 million of government and commercial bonds were held (2023: £nil). Overall, the total amount of cash and investment securities held remained broadly similar across the period, reducing by only 1.4%.

The proportion represented by retail deposits increased to 94.2% in accordance with our long-term funding strategy (2023: 81.1%), with wholesale borrowings paid down, including substantial early repayments of Bank of England TFSME funding. Movements in funding balances are discussed in more detail in Section A4.2.

Derivatives and hedging

The derivative assets and liabilities shown in the table above relate almost entirely to arrangements for hedging interest rate risk on fixed rate mortgage and savings products. These assets and liabilities are held at fair value, with the valuation based on future expectations of interest rates. The size of the balances is driven by the difference between current expectations for variable rates and the fixed rates applicable to the hedged items, set at the point of origination, meaning that where market rates have moved sharply, large balances will be carried.

During the year, expectations of future interest rate increases moderated, and to some extent reversed, resulting in a reduction in the derivative valuations in the balance sheet, with swap assets falling by 36.3% in the year to £391.8 million (2023: £615.4 million) and swap liabilities increasing by 149.9% to £99.7 million (2023: £39.9 million). While these movements do contribute to the fair value differences in the profit and loss account described above, they are mainly offset by fair value accounting adjustments to loan assets and deposit liabilities, with the adjustment in assets reducing by £304.1 million in the year and that in liabilities by £47.6 million.

Pension obligations

The IAS 19 valuation surplus on our defined benefit pension scheme increased from £12.7 million at the start of the year to £22.2 million at the year end. The assumptions for this valuation are based on market-derived interest and bond rates and can be subject to fluctuation where market rates do not move in parallel.

The changes in inputs between the valuations at the beginning and end of the year are smaller than those seen in some recent periods, with the principal differences being the decrease in the discount rate used in evaluating scheme liabilities, based on long-term corporate bond yields, decreasing from 5.55% to 5.10%, and the assumed rate of RPI inflation, based on gilt yields decreasing by a lower amount, from 3.25% to 3.05%. These movements led to a pre-tax valuation gain of £7.2 million being booked in other comprehensive income (2023: £2.4 million).

Other assets and liabilities

Other assets decreased from £134.6 million to £101.4 million in the year, largely a result of the replacement of the CRD scheme, which required regulated banks to place a designated non-interest bearing deposit with the Bank of England, the income from which would fund the central bank's activities. This was replaced during the period with the Bank of England Levy, as noted above. A CRD asset of £38.0 million had been held at 30 September 2023 with none held at the 2024 year end. This reduction in sundry assets was partly offset by a higher level of accrued interest income, which increased by £6.5 million as a result of higher interest rates.

Other liabilities reduced from £648.9 million to £430.8 million at 30 September 2024. This was principally a result of the reduced value of collateral deposits received against swap assets, which fell by £279.8 million, reflecting the reduced amount outstanding. This was offset by an increase of £38.5 million in accrued interest, as funding balances and rates continued to rise.

A4.4.3 Segmental results

The underlying operating profits of the two segments described in the Lending Review in Section A4.1 are detailed fully in note 2 and are summarised below.

	2024	2023
	£m	£m
Segmental profit		
Mortgage Lending	**257.7**	246.6
Commercial Lending	**88.3**	113.2
	346.0	359.8
Unallocated central costs and income	**(53.3)**	(82.2)
	292.7	277.6

Central administration and funding costs, principally the costs of service areas, establishment costs and bond interest have not been allocated, nor has interest income from surplus liquidity. The increase in unallocated interest in the year, a result of higher interest rates, year-on-year, is the main cause of the change in unallocated balances.

Mortgage Lending

The Mortgage Lending division continues to perform well and grow its NIM, with margin on fixed rate accounts protected by hedging arrangements. Net interest grew by 1.7% in the year to £282.3 million (2023: £277.6 million) with the average net loan balance growing by 4.3% to £13,159.0 million (2023: £12,615.5 million). NIM decreased to 215 basis points (2023: 220 basis points), as a result of the tightening in retail funding costs in the period.

Overall credit performance of the book has worsened slightly in the period, with an increase in properties placed under the control of a receiver of rent, although observable adverse credit impacts have been minimal to date. Only 1.4% of the gross loan book by value at the year end was considered to be credit impaired (2023: 1.2%), including an increase in IFRS 9 Stage 3 cases from £142.2 million to £171.1 million, with increases concentrated amongst realisation cases.

The charge for impairment decreased to £5.6 million in the year (2023: £10.4 million) with the cost of risk for the year at 4 basis points (Appendix B). The low cost of risk reflects the high levels of security cover in the division's portfolios.

Overall contribution from the division for the year increased by 4.5% to £257.7 million (2023: £246.6 million).

Commercial Lending

Average balances in the Commercial Lending division grew by 10.6% to £2,130.9 million (2023: £1,926.8 million), which, together with a decrease in NIM from 704 basis points to 586 basis points, generated a decrease of 8.0% in net interest to £124.8 million (2023: £135.7 million). This reflected changes in the proportion of segmental income generated in each of the division's operations, coupled with the increase in average funding costs, seen across the business.

Impairment charges for the period, at £18.9 million, had increased significantly from the 2023 financial year (2023: £7.6 million), with this increase concentrated in the development finance operation. Credit performance in the year remained largely stable in the motor finance and SME lending elements of the portfolio, with low arrears and relatively few defaulted cases, although we maintain a cautious attitude towards credit prospects for the sector.

5.1% by gross value of cases in the segment's portfolio were considered to be credit impaired at the year end compared to 3.5% at the previous year end. However, a substantial amount of this balance relates to development finance projects, where security cover is generally high. In development finance an increasing number of watchlist cases have been recorded, with a limited number encountering significant distress, contributing £47.3 million of the £48.7 million increase in IFRS 9 Stage 3 balances in the year. Losses in this business are highly cyclical and generally linked to idiosyncratic factors or economic shocks and these losses follow several years where loss levels were minimal.

These factors led to a reduction in segmental profit of 22.1% to £88.3 million (2023: £113.3 million).

A4.5 Operations review

Our strategy relies on sector knowledge, specialist systems and the careful management of risk across all our operations to meet our goals. Our strategic pillars include maintaining a customer-focussed culture and a dedicated team, highlighting the importance of our experienced, skilled and engaged workforce facilitated by effective systems and detailed analytics in delivering our purpose.

This year has seen continued progress in our long-term programme to enhance processes and technology, with significant elements either completed in the period or nearing completion including major infrastructure upgrades and the roll-out of the new mortgage origination platform. The enhancements completed address both internal systems and those facing customers and business partners, and enhance our risk management framework and support our digitalised vision for our future operating model. At the same time we continue investing in our people and processes to ensure the effectiveness of our operations going forward.

This continuing prioritisation ensures we maintain a firm foundation for building the business and delivering our strategy into the future.

A4.5.1 Operations

Our workforce is just over 1,400 people, most of whom work on a hybrid basis, dividing their time between home-based working and one of our office locations. The delivery of our strategy requires that we optimise our IT systems and physical infrastructure to provide the best level of service to customers, and a rewarding working experience for employees.

Over recent years we have been undertaking a major programme of systems re-engineering covering our IT infrastructure and our loan origination and administration systems, to support our digitally enabled strategic vision.

This year we continued to make progress with this programme, with several major milestones being achieved. In December our IT mainframe systems were migrated to a cloud-based solution, meaning that over 90% of our major IT applications are now cloud-based. Our largest business area, mortgage lending, saw a major upgrade to its operational platform in the second half of the year. The new mortgage system offers more functionality and better service to our mortgage brokers and a better user experience for our people, as well as increasing process efficiency. While the main system has now been launched, the rollout to the full broker population continued into the new financial year, and work to deliver further enhancements continues.

The launch of the new origination platform for mortgages means that new cloud-based, digitally-advanced application and underwriting platforms have been rolled out for three of our principal lending areas: buy-to-let mortgages, SME lending and development finance. Each represents a major step in our digitalisation journey, and with related staff training and process enhancements, a substantial investment in the future of our businesses.

Customer take-up of the buy-to-let self-service portal, introduced in 2023, has increased in the period. This enables customers to generate customised statements and update their personal details, amongst other tasks, and has resulted in a reduction of approximately 25% in calls to the operation's contact centre.

Further enhancements were also rolled out to the new SME lending system, enabling a more seamless application process and swifter decisions, while further improvements to telephony, financial crime risk management, payments and customer self-service applications were also put in place, enhancing efficiency and the experience for internal and external users.

As progress is made on the digitalisation roadmap, work continues to deliver further enhancements for loan and savings customers, business partners and employees, which will come online in the coming periods.

We have made no significant changes in our approach to working, with our hybrid working model remaining in place and office occupancy remaining at similar levels to previous periods, with most people spending just over two days a week in an office location. This has continued to evolve in the year, with learnings being used to refine the approach. As a specialised business we believe that a 'one-size-fits-all' approach to working is unlikely to deliver the best results across our different operations, and business areas continue to adopt working methods which suit the needs of their people, processes and customers, investing in appropriate system enhancements as required.

Our office and other sites are valuable hubs where collaboration, communication, development and the growth of our culture and identity can be fostered, but we recognise that they must adapt as the business evolves. During the period we continued to review our physical footprint to ensure best use is being made of the estate. As a result, we were able to consolidate our Solihull-based staff in one location, while approving a long-term plan to improve the functionality, working environment and environmental impact of our Solihull headquarters.

As well as providing an enhanced working environment for our people, these developments should provide both financial and sustainability benefits and, alongside our relatively modern London and Southampton sites, deliver facilities well-suited to our hybrid working approach.

The operational resilience of the business remains an important area of focus for us and our regulators. During the year the second formal self-assessment required by regulators was successfully completed, providing an opportunity to evaluate developments in this area since the exercise was first completed.

We maintained our focus on high-quality customer service throughout the period. Regular surveys are conducted with customers and business introducers to monitor satisfaction, which have remained positive (as set out in Sections A4.1 and A4.2). To ensure this continues, we reviewed the structure of our main operational functions, reorganising reporting lines to create synergies and share specialist expertise. Together with enhancements to telephony and related systems, this delivers a function well able to support our future customer service aspirations.

The Financial Conduct Authority ('FCA') Consumer Duty expanded to cover those of our legacy products which are within the scope of the Duty from July 2024. Building on the successful first phase introduction during 2023, which involved significant work to embed the Duty's requirements into our systems and processes, the further work carried out in the year meant that we were able to comply with the wider scope requirements by the FCA deadline. This was confirmed by our first formal Consumer Duty Annual Report, which was presented to, and approved by, the Board in the year.

We continue to monitor progress on the FCA Review of Motor Finance Commissions, which was launched in the year, together with associated legal cases, including the current judicial review relating to determinations made by the FOS, and the Court of Appeal decision in the cases of Johnson, Wrench and Hopcraft. While we were not involved in the review directly, the cases currently in progress have a potentially significant impact across the industry as a whole. While we have received an increased level of contact from customers as a result of the publicity surrounding this issue, this has remained within manageable limits. However, we do have contingency plans in place to ensure that if volumes do grow, all customers can be appropriately dealt with.

A4.5.2 Governance

We believe that high standards of corporate governance are fundamental to the effective execution of our strategy. The Group is subject to the 2018 UK Corporate Governance Code (the 'Code'), and we have continued to comply with the Code's principles and provisions throughout the period.

A new edition of the Code, most of which will apply to us from our year ending 30 September 2026 (with provisions relating to financial control applicable from the 2027 financial year) was published in January 2024. We note the revisions made by the FRC to its original proposals, and work to respond to these changes is already in progress.

Our annual general meeting ('AGM') was held on 6 March 2024. All resolutions were carried comfortably with at least 95% of votes in favour, and the Board extends its thanks to those shareholders who participated. Detailed results can be found on our corporate website.

During the year, the Audit Committee conducted a tender process in respect of the appointment of external auditors with effect from the financial year ending 30 September 2026. All of the six major audit firms were considered in the process with opinions being canvassed from shareholders and their representatives during our normal investor relations meetings.

Following detailed consideration of the various firms' proposals the Committee recommended the appointment of Deloitte LLP in place of KPMG LLP, the current external auditor, once they have completed their tenth year in office, following the signing of the 30 September 2025 accounts. The Board accepted this recommendation, subject to shareholder approval, which will be sought at the 2026 AGM.

More details on our corporate governance arrangements are set out in Section B.

Board of directors and senior management

As previously announced, Tanvi Davda, an independent non-executive director, succeeded Hugo Tudor as Chair of the Remuneration Committee on 7 December 2023. Hugo remains on the Board of Directors and has been considered a non-independent director with effect from the conclusion of the AGM on 6 March 2024. Hugo resigned from the Audit, Remuneration, Nomination and Risk and Compliance Committees on this date. The Board currently comprises two executive directors, six independent non-executive directors, one non-independent non-executive director and the Chair, who was considered independent on appointment.

Following the year end, on 1 November 2024, Tanvi also joined the Audit Committee, following consideration by the Nomination Committee of the appropriate level of resource required to fulfil its duties, and the most appropriate way to deliver this.

At 30 September 2024, our Board included four female directors, comprising 40% of its membership, with one of the senior roles designated by the FCA held by a woman, Alison Morris, the Senior Independent Director. Half of the Board's principal committees are also chaired by female directors.

On 13 August 2024 Louisa Sedgwick was promoted to the role of Managing Director – Mortgages. Louisa is a well-known and highly respected figure in the mortgage industry, with more than 30 years' experience in leading institutions. She was most recently Paragon's Commercial Director of Mortgages and has overseen the restructuring of the sales function and product offering in the division. She replaces Richard Rowntree, who has accepted an appointment elsewhere in the financial services sector.

During April 2024 Derek Sprawling, the Group's Savings Director, was appointed as Managing Director – Savings. Derek has been part of the development of our savings proposition from its early days, since joining the business in 2014. Michael Helsby, who had been both Managing Director – Savings and Strategic Development Director, retains his strategy role.

Both Louisa and Derek joined the Executive Performance Committee and Executive Risk Committee. This increases the membership of both committees to twelve at the year end, with 25% of members female.

In a reorganisation after the year end, Sarah Mayne, the Chief Internal Auditor, joined the committees as a member, having previously attended their meetings as an observer. Sarah's appointment brings the number of members to thirteen, and the percentage of female members to 30.8%.

Remuneration policy

The last triennial review of our director's remuneration policy was approved by the 2023 AGM, and a further approval at the 2026 AGM will be required. We will therefore be seeking input from shareholders and other interested parties over the course of the forthcoming financial year as our Remuneration Committee develops a revised policy to be presented with the 2025 Annual Report and Accounts. We would urge stakeholders to participate in this process, if invited, and representations can be made to the Remuneration Committee Chair through the office of the Company Secretary.

A4.5.3 Management and people

Over 1,400 people work in our business across the UK, with the majority based at our Head Office in Solihull, but with hybrid working arrangements. People are our most important asset, and we are proud to be accredited as a platinum employer under the Investors in People programme. We focus on providing people with opportunities for varied and rewarding careers, offering extensive training and coaching opportunities to enable them to meet their own ambitions, whilst delivering on our strategic objectives.

Conditions and culture

We continue to refine our operating model, streamlining and simplifying our organisational structure, ensuring that our businesses are best positioned to continue to focus on providing good outcomes for customers, while protecting and developing specialist skills. We focus on ensuring the resourcing requirements of potential future challenges and opportunities are met, while ensuring that we can operate in the most cost-efficient way possible.

Whilst we seek to avoid redundancies wherever possible, consultation exercises with a small number of employees in different business areas were entered into during the year. Some affected employees were redeployed to alternative roles, whilst a number left the business on a voluntary basis, minimising compulsory redundancies.

During the period, working practices continued to be enhanced to embed the Consumer Duty, contributing to driving good customer outcomes. This was supported by changes in our individual performance management approach, where formal performance ratings have been removed and the focus of performance conversations is based on five priority areas: customer, risk, commercial, people, and sustainability.

We continually strive to build an engaged workforce and encourage a culture where employees are comfortable providing feedback. Since April 2024, surveys have been used to gather feedback on the experiences of new hires and leavers as part of a larger project to understand particular elements of the employee lifecycle. Whilst still in their early days, these surveys have produced a strong set of positive indicators, with 96% of all new employees stating they are proud to work for the Group. The survey asks for employees' feedback on topics such as inclusion, management and leadership, access to development opportunities, and views of our commitment to delivering good customer outcomes. It was particularly pleasing that 100% of new employees agreed that we are committed to delivering a good outcome to customers. Both leavers and joiners described the business as being a welcoming, supportive, inclusive and professional employer.

With an employee attrition rate, excluding redundancies, of 10.8% (2023: 11.4%), our retention levels continue to be better than the national average. These high levels are further bolstered by 58.9% of employees achieving over 5 years' service, 12.5% achieving over 20 years with the Group and 3.7% achieving over 30 years' service.

Our employees continued to show flexibility during the year with many undertaking secondments and transfers to different areas of the business to ensure that the needs of the customers continued to be appropriately met.

We retain our accreditation from the UK Living Wage Foundation and minimum pay exceeds the levels set by the Foundation. The minimum wage paid to our employees increased to £12.69 per hour from 1 October 2024, with a higher level for London-based employees.

The profit related pay scheme continues to provide employees with a benefit linked to our financial performance. In the current year, as a result of the 2023 profit, an additional £2,400 was paid to all full-time employees below senior management level. Employees also benefitted in the year from our maturing 2021 three-year Sharesave scheme, being able to buy shares with a market value in the region of £7.00 each for an option price of £4.24.

Equality and diversity

Continued progress has been made on our equality, diversity and inclusion ('EDI') agenda during the year, and in September 2024, we launched an updated equality, diversity, and inclusion strategy to employees, with three main focus areas: gender, ethnicity, and socio-economic background ('SEB'). The EDI Network continues to inform our plans in this area, and is sponsored at executive level by Ben Whibley, the Chief Risk Officer, who succeeded Richard Rowntree in this role in the year.

The drive to capture diversity data for as many employees as possible continues, with fresh initiatives in the year, and by September 2024, 80.9% (2023: 76.8%) of employees had completed a diversity profile on the HR management system. The collation of this data from employees provides us with an enhanced ability to monitor and improve the diversity of the workforce going forward.

We remain committed to improving workforce diversity and ensuring that talented people from all backgrounds can reach their full potential by breaking down barriers to progression.

Progress towards our Women in Finance target of 40.0% female representation in Senior Management roles by December 2025 continues, with female representation at 30 September 2024 at 37.9% (2023: 37.9%). Louisa Sedgwick's appointment to the Executive Committee in August 2024, as Managing Director of our Mortgage Lending business was also notable, with Louisa being the first female to hold executive committee level responsibility for an income-generating business area. This internal appointment also demonstrates the effectiveness of our succession planning strategy.

In line with the expectations of the Parker Review, we have committed to achieve 5% ethnic minority representation in Senior Management roles by December 2027. Ethnic minority representation in senior leadership roles currently stands at 1.7%, so developing the strength of our talent pipeline to provide candidates for these roles in future, and critically reviewing external recruitment procedures, will be central to achieving this stretching target.

To support its efforts to improve socio-economic equality we have partnered with Progress Together to participate in the Accelerated Progress Programme, a cross-company scheme. This programme is uniquely designed to develop, empower and unlock the potential of high-performing middle managers from a low SEB.

A4.5.4 Sustainability

Sustainability, including resilience in the face of climate change risks, is core to our strategy: to focus on specialist customers, delivering long-term sustainable growth and returns through a low risk and robust business model. Sustainability influences every aspect of our business and means:

- Delivering sustainable lending through the design of products and the choices of sectors in which to operate
- Reducing the impact of our operations on the environment
- Ensuring we have a positive effect on our stakeholders and communities

Sustainability issues are coordinated on a group-wide basis by the Sustainability Committee, which reports directly to the Executive Performance Committee. The Sustainability Committee is responsible for driving the Group's initiatives on climate change and progressing other projects in the field of sustainability, ensuring that information on all such initiatives is shared across our businesses and facilitates the development of a coordinated and proactive approach.

During the year the Committee has overseen a sustainability materiality exercise, facilitated by third party experts. The exercise prioritised key sustainability areas ensuring our strategy and reporting remain current and up to date.

In December 2024 we will publish our fourth Responsible Business Report, our annual sustainability report. This provides more detailed information on sustainability initiatives and demonstrates how sustainability is embedded. It can be found, alongside other information and documentation relevant to ESG issues, on our corporate website at www.paragonbankinggroup.co.uk.

Climate change

We have made a commitment to achieve net zero in line with, and in support of, UK Government commitments. In doing so we recognise that net zero cannot be achieved by any entity in isolation and therefore our commitment is dependent on appropriate government and industry support and action. As members of Bankers for Net Zero ('B4NZ'), we are active in providing input into the wider efforts of the financial services industry to creating a clear pathway to support the decarbonisation of the UK economy.

We have designated climate change as a principal risk within our Enterprise Risk Management Framework. This means that our response to climate change issues is considered within our overall strategy at board level. These risks fall into two main groups:

- Physical risks (which arise from the impact of more frequent or severe weather-related events on our business or our customers)
- Transitional risks (which come from the speed, nature and level of regulations designed to promote the adoption of a low-carbon economy)

Information and measures on climate-related risks and opportunities are considered at board level through the CEO's monthly reports. Developments in sustainable products and climate-related exposures are considered for each of our business lines as part of strategy deep dives which feed into the annual board strategy event and into our business planning process.

No new material risks related to climate change were identified during the annual risk reviews, carried out on each key business area supported by the ESG and Credit Risk teams. The findings have been used to inform this year's climate change scenario analysis exercise and to identify the key drivers of our climate change risk profile and opportunities. The exercise was conducted in line with the outputs of the Climate Financial Risk Forum ('CFRF') scenario analysis working group, which we are represented on, and incorporated within the broader 2024 ICAAP analysis.

As part of the ongoing development of our climate-related reporting, we have enhanced our analysis of financed emissions, and a more detailed emissions balance sheet is being presented in the 2024 Annual Report and Accounts (Section A6.4).

Developments within business lines which contribute towards our climate risk strategy are set out in the relevant business reviews.

As a financial services provider the direct environmental impact of our operational footprint is considered low. However, we recognise the importance of reducing the impact our operations have on the environment. We have committed to reduce our operational footprint to net zero by 2030 and it is now reported on a quarterly basis to the Sustainability Committee, with a summary report escalated to the Board.

In support of this net zero target, certified carbon offsets equivalent to our operational footprint for the twelve months ended 30 September 2024 have been purchased, in the same way as for the two preceding financial years. We intend to repeat this for each future year, but accept that reducing impacts is preferable to offsetting, where possible.

Initiatives to reduce operational environmental impacts during the year include:

- Initialising a project on the refurbishment and decarbonisation of our Solihull head office building based on the decarbonisation assessment delivered during 2023.
- Centralising Solihull-based employees in the head office building, following changes to the working environment and building renovations. The relocation of staff has facilitated a reduction in operational emissions, while also delivering other benefits, such as enhanced opportunities for collaboration and for building our culture and communities.
- Continuing to electrify our company car fleet and working to reduce unnecessary business travel. At 30 September 2024, 95% of all company cars were either fully electric or hybrid (2023: 80%). We also offer an electric car scheme via salary sacrifice to all employees, providing those not entitled to a company vehicle with access to lower emissions travel. These initiatives are expected to reduce both direct and indirect travel emissions.
- Continuing to transition our electricity supplies to renewable or low carbon sources. During the year the proportion of our purchased electricity certified as renewable rose to 91% from 86% in the 2023 financial year.
- Enhancing ESG due diligence at the beginning of the relationship with new suppliers, considering climate related targets and greenhouse gas reporting.

Social engagement

During the year, the employee-led Paragon Charity Committee raised £49,000 for Molly Ollys, the charity chosen by employees. Molly Ollys supports children with life-threatening illnesses and their families and helps with their emotional wellbeing.
For the financial year ending 30 September 2025, Guide Dogs has been selected as the beneficiary of the committee's fundraising activities.

Our employee volunteering initiative also continued to make an impact in our communities during the year. Employees are entitled to an annual paid volunteering day, and opportunities offered during the year have focussed on supporting people who are experiencing poverty, providing educational opportunities for children and young people and improving the local environment. These have included initiatives building on long-standing relationships with charities and schools.

Engagement in the volunteering programme across all our locations has remained stable this year, with the number of volunteer days completed in the financial year totalling 460 (2023: 469).

Customer experience

We are committed to delivering good customer outcomes and continue to find ways to enhance the customer journey and experience in all our operations. During the year our comprehensive insight programme has supported the updating of communications materials, making sure they are as clear, accessible and understandable as possible for all customers, including those in vulnerable circumstances. The programme also facilitated updates of our customer websites and the simplification of product ranges offered, all aimed at improving the wider customer experience. Our internal Customer Vulnerability Awareness Group continues to raise awareness around vulnerabilities, making sure that impacted customers are considered throughout every stage of their financial journey.

The Customer and Conduct Committee monitors complaint volumes, identifies any trends and makes sure issues are addressed and lessons learnt, and throughout the year complaint metrics have remained positive, excluding the effect of motor finance related cases.

A4.5.5 Risk

The effective management of risk remains crucial to the achievement of our strategic objectives. Our risk governance framework is designed around a formal three lines of defence model (business areas, the risk and compliance function and internal audit), which is supervised at board level.

Risk environment

The risk landscape has shifted considerably since the end of 2023. Certain challenges which we face have remained constant, others have receded, whilst new threats have emerged which impact on our ongoing planning and approach to risk management.

The evolving nature of global, national and sectoral risks requires us to monitor the environment proactively to ensure we remain responsive in reacting to emerging threats and adjust our assessment and management of known risks as their impact changes. We continue to rely on our Enterprise Risk Management Framework ('ERMF') to ensure that new and developing risks are promptly identified, assessed and managed, with appropriate escalation and oversight provided. We are committed to ensuring that our business remains resilient in the face of such challenges and is able to respond in an agile manner.

The importance of the ERMF has been evident throughout the year as we have navigated the ongoing geopolitical and economic threats that have impacted the UK through the continuing cost-of-living challenges and high costs of doing business. Whilst inflationary pressures have eased somewhat, and interest rates have stabilised and are now on a downward trajectory, there is still considerable uncertainty as to what the longer-term path and timescale looks like. We remain cautiously optimistic, but continue to assess a full suite of potential scenarios as part of our ongoing financial and operational planning.

Whilst prospects of a prolonged recession seem now to have diminished, the new UK Government has only been in office for a few months and its full agenda and detailed policies are yet to be clarified. Further detail was provided in October's budget, but it is already clear that despite the improving situation, the Chancellor considers her policy options to be constrained by legacy issues. The detailed longer-term impact of this is yet to be seen and we continue to monitor developing initiatives closely to assess any impacts on our activities.

Aside from economic policy, the UK Government has already stated that it intends to make reforms in the private rented sector through its 'Renters' Rights Bill', including ending 'no fault' Section 21 evictions and introducing a 'Decent Homes Standard' for rental homes. We continue to engage with the government, both directly and in conjunction with trade bodies, on how this can be practically implemented, building on work carried out on earlier proposals made by the outgoing UK Government. At the same time we maintain our focus on how these proposals may impact the risk profile of our buy-to-let portfolio.

In addition to the domestic landscape, 2024 has seen significant global change of which the potential impacts are yet to be fully determined. The results of the US presidential election which took place in November 2024 will undoubtedly have far reaching economic impacts beyond the US borders and the year has also seen political change across a range of other democracies.

We continue to monitor the ongoing impacts of the armed conflicts in Ukraine and the Middle East, where the situation remains highly uncertain. Given the unfolding nature of these events, their full potential impacts on the UK economy remain unclear and may be wide-ranging and varied, depending on the extent of direct UK involvement. We are keeping a close watch on how these situations develop and continue to evaluate how they may impact our risk profile, either by influencing macro-economic behaviours or in areas such as global supply chain disruption, physical security and increased cyber threats.

Despite the significant challenges these geopolitical and economic threats bring to the overall operating environment, our businesses continue to perform positively. Whilst these issues continue to develop and demand ongoing vigilance, we are well-placed to manage these and other risks as we have shown through our approach to the significant and varied challenges of recent years:

- Interest rates are widely considered to have peaked and to have begun a slow downward trajectory. The prevailing view is that the outlook is more stable than at the start of the period. However, given the higher cost environment, we continue to closely monitor potential impacts on customers and employees
- We continue to focus on high-quality lending, applying prudent credit policies. Actual and projected arrears trends are assessed in setting lending criteria. However, the wider economic challenges of recent years have yet to translate into significant adverse performance across the lending portfolios
- Whilst the current risk profile of loans across our lending portfolios does not indicate any noticeable signs of significantly increased widespread financial stress, we continue to take a forward-looking, as well as current, view of affordability, and adjust credit policy to ensure loan repayments are sustainable for customers where necessary:
    - The credit performance of our buy-to-let lending book saw some movement as landlords adjusted to higher interest rates but default rates have remained broadly static. The sustained growth in property valuations seen in the period, coupled with very strong rental demand, provide a sound basis for buy-to-let lending. Together with the prospects of decreasing interest rates in the coming financial year, the risk outlook is generally positive
    - Arrears for SME lending have remained largely stable over the year, with consistent market demand for the types of asset we fund supporting both loan performance and asset values

- o The development finance market has generally adjusted to the higher costs and interest environment, with these factored into project planning, although we have seen a higher incidence of accounts experiencing credit issues

  The availability of both labour and raw materials is also no longer providing the level of constraint to the sector seen in previous periods. However, the impacts of higher costs on older inceptions and planning delays both at the approval stage and at completion sign-off, which can lead to extended loan periods, can erode developer profitability. The strength of the underlying property values however remains firm and provides a ready exit for developers

- We take our responsibilities in respect of customers in vulnerable circumstances extremely seriously and continue to ensure that, where appropriate forbearance solutions are necessary, these are tailored to individual customer circumstances and aligned to regulatory guidance and expectations

Risk management

Our risk management framework remains core to the effective identification, assessment and mitigation of risks and level of maturity around risk understanding across our businesses continues to deepen and improve.

We have invested significantly in our risk management capability since the inception of the current ERMF in 2021, with focus on improved design and enhancements to the risk toolkit to ensure that the nature of risk is well-understood, accountabilities for risk management are embedded in day-to-day operations and material risk issues are promptly identified and escalated. By ensuring that risk management remains a core discipline across all business lines and support functions, we maintain the ability to manage all categories of risk and can respond to challenges in an agile and proportionate way. The well-understood ERMF enables us to manage all categories of risk and further mature our overall risk approach ensuring that risk considerations remain central to day-to-day and strategic decision making.

Whilst the ERMF has been successfully rolled out and embedded across our businesses, continuing development, ensuring it remains relevant and aligns to our strategic aspirations, are core to its ongoing effectiveness. During the year this has included the refreshment of the principal risk policies and associated appetites that provide the foundation and framework for managing the individual risk exposures. Significant work has also been undertaken in scoping the requirements for an improved risk and compliance IT system. This will better provide an automated solution to support the functioning of the ERMF, the user community and to further improve the analysis and reporting of risk-related data, giving better insight into the risk profile at all levels.

We are committed to the further development of the ERMF, as necessary, to ensure it remains relevant and in line with regulatory expectations. Regular risk maturity and risk culture assessments provide an invaluable aid to identifying potential enhancements. The strategy of continuous improvement is underpinned by ongoing upskilling in the risk function, ensuring that appropriately skilled resource is available to provide oversight and assurance around the management of all categories of risk.

Experienced hires have been onboarded during the year into the function which bring the advantages of further benchmarking and wider perspectives on core risk processes such as internal control assessments and emerging risk identification as we look to refine these over the next twelve months.

The ERMF has performed a critical role in managing the wider geopolitical and economic challenges which have been prevalent during the year, and continues to do so. However, there are a number of ongoing risk management initiatives which remain key to the successful execution of our strategy. Good progress has been made on these and we remain focussed on delivering these commitments which include:

- **Consumer Duty** – Successfully delivering Consumer Duty rules and requirements, meeting the regulatory deadlines for all open and closed products and services in scope, ensuring that the Group's culture is driving good outcomes for its customers
- **Operational Resilience** – Continuous embedding of operational resilience capabilities including addressing actions and vulnerabilities identified in the regular self-assessment process. This includes ongoing refinement of critical business services and tolerances, ensuring these considerations are embedded as both part of day-to-day operations, and as a core principle within our digital strategy and technology roadmap which increasingly relies on third parties to deliver core services
- **Climate** – Addressing the impact of climate change on managing financial risks and considering this as part of the wider ESG agenda, with clear commitments made to drive net zero ambitions in line with wider governmental strategy
- **IRB** – Continuing to refine established IRB model methodologies for the buy-to-let and development finance portfolios, while refining the embedded overarching model risk framework to further enhance credit risk management and support the application process. Focus is on updating buy-to-let models, following recent PRA binding feedback as part of the ongoing close contact with the regulator
- **Stress testing** – Ongoing enhancement to stress testing procedures to ensure the robustness of capital and liquidity positions including further refinement of our IRB models for buy-to-let and development finance
- **Cyber-security** – Ensuring effective cyber-security controls and a robust data protection approach are in place, particularly with the evolving and increasingly sophisticated nature of cyber threats and in support of our commitment to further digitalisation. As the use of artificial intelligence ('AI') becomes more widely embedded, we have further formalised oversight and governance procedures in this area to ensure that cyber defences are not compromised whilst embracing the possibilities that AI offers
- **Third-party dependency** – Further strengthening the oversight frameworks around significant third-party relationships as reliance on such contractors continues to increase across the industry

We continue to monitor and focus on these initiatives to ensure the expectations of regulators and wider stakeholders are met whilst maintaining good outcomes for customers.

Significant and emerging risks

The principal significant and emerging risk areas expected to impact our businesses during the coming year ending 30 September 2025 and beyond include:

- **Interest rates** – Continuing uncertainty over the speed and timing of any potential future reductions in interest rates remains at the forefront of business planning. We continue to closely monitor UK and macro-economic trends and assess the impact on lending and savings to ensure we are well placed to manage the associated risks
- **Motor finance commissions** – We continue to monitor the FCA's work in relation to motor finance commissions, and other related developments in that area. Given the comparatively small size of the motor finance portfolio, our expectations of exposure remain low. However, the full impact cannot be accurately assessed in full until the FCA's proposed approach to such complaints is known and related legal cases resolved. We continue to manage all complaints in line with the regulator's requirements
- **Costs of living and doing business** – Management of risks associated with the wider economic landscape and the impacts this has already had, and will continue to have, on the finances of individuals and corporates in the UK. We remain committed to ensuring appropriate treatment of ongoing arrears and the position of affected customers. Key to this will be ensuring that treatment of customers is fair and conduct principles remain at the forefront of all interactions
- **Compliance expectations** – Addressing an increasing level of regulatory standards, where we are committed to ensuring all areas of our businesses remain compliant. Particular focus in the year has been on meeting extended regulatory requirements in respect of the FCA Consumer Duty for those remaining products in scope. Our priority is to continue to embed the Duty within all business lines, ensuring that good outcomes and a culture of continuous improvement remain at the forefront of all customer interactions
- **Financial crime** – We continue to prioritise work in this area and have invested heavily in ensuring that regulatory expectations in respect of anti-money laundering and wider financial crime control frameworks are met. There is an ongoing programme of continuous improvement in our financial crime technology and resources, and this remains a key focus and consideration in our wider strategic change initiatives
- **Climate** – We continue to focus on increasing our understanding of the impact of the risks associated with climate change and related timescales. The new UK Government has confirmed its goal of net zero carbon by 2050, however significant uncertainty remains as to the detailed policies and regulations which might be implemented to achieve this. As global and domestic strategies are further refined, we seek to ensure that the impact of climate change is considered as a core driver for our operational footprint and our lending strategies, ensuring we are well placed to adapt and advance as the outlook becomes more certain

Further details regarding the risk governance model, together with the principal risks and uncertainties faced by the Group, the ways in which they are managed and mitigated and the extent to which these have changed in the year, are detailed within Section B8 of this annual report.

A4.5.6 Regulation

Paragon Bank is authorised by the PRA and regulated by the PRA and the FCA. The Group is subject to consolidated supervision by the PRA and a number of subsidiary entities are authorised and regulated by the FCA. As a result, current and projected regulatory changes continue to pose a significant risk for our business. All potential regulatory changes impacting on our operations are closely monitored through the comprehensive governance and control structures we have in place.

During the year all relevant regulatory publications have been considered, their implications identified and required changes implemented within an appropriate timeframe. The volume of requests for information from the FCA has, as expected, remained high during the year with particular concentrations around data regarding levels of appropriate support provided to customers and information to support the FCA's ongoing investigations into the motor finance market and discretionary commission arrangements. We respond to all such requests in a timely fashion and maintain robust controls to support the delivery of good outcomes for customers.

The following regulatory developments currently in progress have the greatest potential impact on our businesses:

- **Consumer Duty** – The FCA Consumer Duty sets higher expectations for the standard of support provided to customers, and challenges firms to evidence the customer outcomes they are delivering. Dates for implementation of the rules have been staged across 2023 and 2024. This has been a priority area during the year with activity being championed by the Board, and a non-executive director assigned responsibility for oversight of the programme. All areas targeted for implementation were delivered as planned, with the focus now on continuing to embed the introduced enhancements. As the new rules have been updated into business-as-usual standards and processes, this also aligns with expectations within the FCA 2024/2025 business plan around vulnerability, cost-of-living pressures and financial inclusion
- **Basel 3.1** – In December 2023, the PRA published Part 1 of its Basel 3.1 implementation standards. This covered a range of areas including counterparty credit risk ('CCR'), credit valuation adjustment ('CVA') and operational risk. The final part that focused on Pillar 1 credit risk capital requirements was published on 12 September 2024, with publication having been delayed by the UK election. The PRA has made a number of changes to the proposals set out in the original consultation reflecting the extensive industry feedback received. These changes which will have an impact on all firms, will take effect from January 2026, postponed from July 2025. Before implementation the PRA intends to rebase and adjust all firms' Pillar 2A requirements and PRA buffers
- **Small Domestic Deposit Taker regime ('SDDT')** – Alongside the publication of the Basel 3.1 package, the PRA also set out its approach to the capital requirements for firms qualifying for the SDDT regulation. This builds on the liquidity, reporting and remuneration rules for SDDTs published in 2023, and is expected to be introduced from 1 January 2027

  The capital rules include an initial Interim Capital Regime ('ICR') which firms can join subject to meeting the SDDT eligibility criteria. The ICR will allow firms to continue being subject to current requirements until January 2027, then transitioning to either the SDDT or full Basel 3.1 capital regime

  While we are currently eligible to apply for the ICR and SDDT regimes and expect to submit an application to join the ICR, once the application window opens, receiving IRB model approval would disqualify us from the point of approval and from that point we would adopt a full Basel 3.1 approach

- **Recovery Planning** – In May 2024 the PRA published a 'Dear CEO' letter on its review of non-systemic firms' recovery planning. Their review found that although many firms understand the basics of recovery planning, there are significant areas for improvement, most notably related to the development of recovery scenarios and the calculation of recovery capacity. We have reviewed the points covered in the letter and, where appropriate, updates have been made to the Recovery Plan

- **Solvent Exit planning** – In the early part of 2024, the PRA published a final policy on solvent exit plans for non-systemic banks and building societies (PS5/24), which includes the Group. It requires firms to undertake a Solvent Exit Analysis and, when the circumstances require it, develop a Solvent Exit Execution Plan. We are fully aware of the requirements, which will complement existing work undertaken on recovery planning, and will be compliant by the deadline of 1 October 2025

- **MREL** – Although we are not subject to MREL (Minimum Requirement for own funds and Eligible Liabilities) requirements currently, given our potential for growth, we may be required to issue MREL eligible instruments at some point in the future and therefore continue to closely monitor developments and potential impacts

- **Enhancing the Special Resolution Regime** – The Bank Resolution (Recapitalisation) Bill is currently before the UK Parliament. This legislation would extend the powers of HM Treasury under the Special Resolution Regime (for example the use of partial sale, transfer, or bridge bank) to small firms. The proposals also include a greater role for the FSCS in the provision of funds to support recapitalisation. This legislation is, to some extent, a response to issues identified following the failure of Silicon Valley Bank in March 2023. We would expect to be covered by these new rules and will actively engage with the Bank of England consultation process once it commences

- **Borrowers in financial difficulties** – Following the findings from its 'Borrowers in Financial Difficulties' project, the FCA confirmed new measures to strengthen protection for consumer credit and mortgage borrowers in financial difficulties. We consider that we are well positioned to meet these requirements. Supporting customers in difficulty, including those with characteristics of vulnerability, is, and will remain a key area of focus within our business model

- **Operational Resilience** – We remain on track to meet all requirements of the final rules and guidance on 'building operational resilience in financial services' published in 2021 by the FCA, PRA and Bank of England. The 2024 iteration of our self-assessment was successfully completed in March 2024, enabling us to validate progress in addressing any gaps identified by the 2023 assessment. Activity is ongoing to complete the objectives identified as part of the self-assessment for further enhancement and refinement of the approach

  We are committed to a programme of continuous improvement in our resilience capability. Important business services are mapped and tested using severe but plausible scenarios to push the boundaries on the ability of the infrastructure, key dependencies and third parties to recover from disruption, using a scenario library which was enhanced for this year's testing programme. The groupwide disaster recovery testing plan also helps support the ongoing scenario testing programme, with clear focus on recovery of important business services. Identified actions to manage and close vulnerabilities identified through mapping, testing and other activities are tracked through to completion

  This approach should ensure our ability to meet the 2025 regulatory deadline, when we will need to be able to demonstrate our ability to stay consistently within impact tolerances

- **Climate change** – Work towards embedding our approach to managing climate-related financial risks continues. The Sustainability Committee, alongside the executive level risk committees, ensures comprehensive consideration of such risks across all aspects of the business, leaving us well-positioned to address emerging challenges

  Managing the impacts of climate change is seen as a key strategic priority, with board-agreed commitments and a detailed plan of work, which has been developed reflecting regulatory and wider requirements. This is reviewed on an ongoing basis to ensure it reflects new thinking and developing expectations as they emerge

Certain regulations applying in the financial services sector only affect entities over a certain size, which the Group might meet within its current planning horizon. We consider whether and when these regulations might apply in light of the growth implicit in our business plans and put appropriate arrangements in place to ensure we would be able to comply at that point.

Our governance and risk management framework continues to be developed to ensure the impacts of all new regulatory requirements are clearly understood and mitigated as far as possible. Regular reports on key regulatory developments are received at both executive and board risk committees.

We are monitoring how the July 2024 change in UK Government might impact wider national and regulatory priorities and continue to engage proactively with the new government to fully understand and assess the impact of proposed policy changes on our operations and those of our customers.

We also continue to review our exposure to emerging developments in the Brexit process as the UK's future relationship with the EU becomes more certain, and the process of embedding EU legislation into UK law and regulations continues, with the remaining parts of the EU capital regime due to be migrated to the PRA Rulebook. However, it is clear that this is an ongoing process, with impacts that will take time to manifest themselves fully. Further clarity is still required from the new government on this and other matters as it sets out its agenda.

Overall, we believe that we are well placed to address all the regulatory changes to which our businesses are presently exposed.

A5. Future prospects

The Code requires the directors to consider and report on our future prospects. In particular, it requires that they:

- Explain how they have assessed the prospects of the business and whether, on this basis, they have a reasonable expectation that it will be able to continue in operation (the 'viability statement')
- State whether they consider it is appropriate to adopt the going concern basis of accounting in the preparation of the financial statements presented in Section D (the 'going concern statement')

In addition, UK Listing Rule UKLR 6.6.6 R(3) requires the directors to make these statements and to prepare the viability statement in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council ('FRC') in September 2014.

The nature of our business activities, current operations and those factors likely to affect the future results and development of the business, together with a description of our financial position and funding position, are set out in the Chairman's Introduction in Section A1, Chief Executive's Review in Section A3 and the business review in Section A4. The principal risks and uncertainties affecting us, and the steps taken to mitigate these risks are described in Section B8.5.

Section B8 of this annual report describes our risk management system and the three lines of defence model which it is based upon.

Note 61 to the accounts includes an analysis of our working and regulatory capital position and policies, while notes 63 to 65 include a detailed description of how the business is funded, our use of financial instruments, our financial risk management objectives and policies and our exposure to credit, interest rate and liquidity risk. Critical accounting judgements and estimates affecting the results and financial position disclosed in this annual report are discussed in notes 68 and 69.

Financial forecasts

We operate a formalised process of budgeting, reporting and review. These planning procedures forecast profitability, capital position, funding requirement and cash flows. Detailed annual plans are produced for two-year periods with longer-term forecasts covering a five-year period, including detailed income forecasts. These provide information to the directors which is used to ensure the adequacy of resources available to meet business objectives, both on a short-term and strategic basis.

The plans for the period which commenced on 1 October 2024 have been approved by the Board and have been compiled taking into consideration cash flows, dividend cover, encumbrance, liquidity and capital requirements as well as other key financial ratios throughout the period.

Current economic and market conditions are reflected at the start of the plan with consideration given to how these will evolve over the plan period and affect the business model. The economic assumptions used are consistent with the economic scenarios considered for determining impairment provisions. The plan is compiled by consolidating separate forecasts for each business segment to form the top-level projection. This allows full visibility of the basis of compilation and enables detailed variance analysis to identify anomalies or unrealistic movements. Cost forecasts and new business volumes are agreed with the heads of the various business areas to ensure that targets are realistic and operationally viable. Forecast loan impairment levels reflect the economic scenarios and weightings used in provisioning calculations at 30 September 2024.

Extensive use is made of stress testing in compiling and reviewing the forecasts. This stress testing approach was reviewed in detail during the year as part of the annual ICAAP cycle, where testing considered the impact of a number of severe but plausible scenarios. During the planning process, sensitivity analysis was carried out on a number of key assumptions that underpin the forecast to evaluate the impact of principal and emerging risks.

The key stresses modelled in detail to evaluate the forecast were:

- An increase in buy-to-let volumes. This examined the impact of higher volumes at a reduced yield on profitability and illustrated the extent to which capital resources and liquidity would be stretched due to the higher cash and capital requirements
- Higher funding costs. Higher cost on all new savings deposits, both front book and back book throughout the forecast horizon. This scenario illustrates the impact of a significant, prolonged margin squeeze on profitability, and whether this would cause significant impacts on any capital, liquidity or encumbrance ratios
- Higher buy-to-let redemption rates for buy-to-let mortgages reaching the end of their fixed rate period. This illustrates the potential risk inherent in the five-year fixed rate business
- Reduced development finance volumes and yield. This replicates a significant increase in competition within the sector, reducing yields and impacting market share, demonstrating how a lower mix of our highest margin product impacts on contribution to costs and other profitability ratios
- Increased economic stress on customers. As well as modelling the impact of each of the economic scenarios set out in note 24 across the forecast horizon, the severe economic scenario was also modelled over the five-year horizon. To ensure this represented a worst-case scenario all other assumptions were held steady, although in reality adjustments to new business appetite and other factors would be made
- Combined downside stress. The IFRS 9 downside economic scenario described in note 24 was modelled out for the plan horizon along with a plausible set of other adverse factors to the business model, creating a prolonged tail-risk

These stresses did not take account of management actions which might mitigate the impact of the adverse assumptions used. They were designed to demonstrate how such stresses would affect financing, capital and liquidity positions and highlight any areas which might impact the going concern and viability assessments. Under all these scenarios, the Group had the ability to meet its obligations over the forecast horizon and maintain a surplus over its regulatory requirements for both capital and liquidity through normal balance sheet management activities.

As part of the ICAAP process potential operational risks were also assessed. This was done through analysis of the impact and cost of a series of severe but plausible scenarios. This analysis did not highlight any factors which cast doubt on the ability of the business to continue as a going concern.

The potential impact of climate change on the business was also analysed. This exercise included an assessment leveraging the Bank of England Climate Biennial Exploratory Scenario. More details of these analyses are set out in Section A6.4.

The outputs from these exercises present the Board with enough information to assess the Group's ability to continue on a going concern basis and its longer-term viability and ensure there are enough management actions within their control to mitigate any plausible and foreseeable failure scenario.

The forecast period begins with a strong capital and liquidity position, enabling the management of any significant outflows of deposits and / or reduced inflows from customer receipts. Overall, the forecasts, even under reasonable further levels of stress show the Group retaining sufficient equity, capital, cash and liquidity throughout the forecast period to satisfy its regulatory and operational requirements.

Risk assessment

During the year the Board discussed, reviewed and approved the principal risks identified for the Group. This process included debate and challenge regarding the most material areas for focus on an ongoing basis. No material changes were proposed to the principal risks.

Each of these principal risks is considered on an ongoing basis at each Executive Risk Committee ('ERC') meeting and each meeting of the board-level Risk and Compliance Committee.

The work of the Risk and Compliance Committee, of which all directors are members or attendees, included:

- Consideration of new or emerging risks and regulatory developments
- Consideration and challenge of management's rating of the various risk categories
- Consideration of compliance with the risk appetites set by the Board and the continuing appropriateness of these risk appetites
- Consideration of the root causes and impact of material risk events and the adequacy of actions undertaken by management to address them

The Board has spent considerable time this year monitoring the developing economic situation in the UK. Although apparently more stable than in recent years, both the prevailing higher rates of interest and the ongoing effects of the price rises of recent years, which affected both consumers and businesses, continue to impact on our operations, with increased potential for vulnerability amongst customers and pressures on affordability. The potential policy impacts of the incoming Labour government in the UK, both on the economy and on the operations of our customers have also been a significant area of focus.

In addition, the directors held 'deep dive' sessions into key areas of risk focus including: the impacts of relevant regulatory statements including those of the FCA's review and update on the cash savings market on our easy access offerings; potential forward-looking economic scenarios; ongoing inflationary challenges; and the potential wider impacts of the economic and social policies of the incoming Labour government, including the potential impact of the Renters' Rights Bill.

Focussed reviews of the principal risks continued throughout the year, including credit risk, capital risk, liquidity and funding risk, market risk, climate change risk, conduct risk, strategic risk, reputational risk, model risk and across the different categories of operational risk. The directors also received briefings and training to ensure these impacts could be fully understood and placed in context. The output from these sessions was fed back into the risk management process.

The directors also continued to monitor the potential impact of the UK Brexit process as the economic and regulatory implications of the UK's exit from the EU continue to crystallise, the emerging long-term effects of the Covid pandemic, and the consequences for the UK economy of developing global geopolitical issues. In addition, the directors specifically considered the impact on risk and viability through review and approval of key risk assessments, including the Internal Capital Adequacy Assessment Process ('ICAAP'), Internal Liquidity Adequacy Assessment Process ('ILAAP'), completed after the year end, and its Recovery Plan.

At the year end the directors reviewed their on-going risk management activities and the most recent risk information available to confirm the position of the Group at the balance sheet date.

The directors concluded that those activities, taken together, constituted a robust assessment of all our designated principal risks, including those that would threaten the business model, future performance, solvency or liquidity. These principal risks are set out in Section B8.5 of the Risk Management Report.

Availability of funding and liquidity

In considering going concern and viability, the availability of funding and liquidity is a key consideration. This includes our retail deposits, wholesale funding, central bank lending and other contingent liquidity options.

Retail deposits of £16,298.0 million (note 33), raised through Paragon Bank, are repayable within five years, with 87.0% of this balance (£14,180.4 million) payable within twelve months of the balance sheet date. The liquidity exposure represented by these deposits is closely monitored; a process supervised by the Asset and Liability Committee. We are required to hold liquid assets in Paragon Bank to mitigate this liquidity risk. At 30 September 2024 Paragon Bank held £2,635.3 million of balance sheet assets for liquidity purposes, in the form of central bank deposits and investment securities (note 64). A further £150.0 million of liquidity was provided by the off balance sheet long / short transaction described in note 64, bringing the total to £2,785.3 million.

Paragon Bank manages its liquidity in line with the Board's risk appetite and the requirements of the PRA, which are formally documented in the Board's approved ILAAP, updated annually. The bank maintains a liquidity framework that includes a short to medium term cash flow requirement analysis, a longer-term funding plan and access to the Bank of England's liquidity insurance facilities, where pre-positioned assets would support drawings of £4,445.9 million.

Holdings of our own externally rated mortgage backed loan notes can also be used to access the Bank of England's liquidity facilities or other funding arrangements. At 30 September 2024, £1,797.2 million of such notes were available for use, of which £1,536.2 million were rated AAA. The available AAA notes would give access to £751.9 million if used to support drawings on Bank of England facilities. Our holdings of highly ranked investment securities may also be used in a similar way.

The earliest maturity of any of our wholesale debt is the central bank debt payable in 2025.

Our access to debt is enhanced by the corporate BBB+ rating held by the Company, which was confirmed by Fitch Ratings in February 2024, and our status as an issuer is evidenced by the BBB-, investment grade, rating of the £150.0 million Tier-2 Bond. Additionally, during the year Fitch Ratings assigned a BBB+ Long-term Issuer Default rating to Paragon Bank PLC, our principal operating subsidiary, the first time a company-level rating has been issued for this entity. This provides additional flexibility to our wholesale funding options.

Following the year end, Moody's also began coverage, granting long-term issuer ratings of Baa3 to the Company and Baa2 to Paragon Bank. These additional ratings will allow more flexibility in funding options in future.

We have regularly accessed the capital markets for warehouse funding and corporate and retail bonds over recent years and continue to be able to access these markets. We also have access to the short-term repo market which we access from time-to-time for liquidity purposes.

Our cash analysis, which includes the impact of all scheduled debt and deposit repayments, continues to show a strong position, even after allowing scope for significant discretionary payments and capital distributions.

As described in note 61 our capital base is subject to consolidated supervision by the PRA. Capital at 30 September 2024 was in excess of regulatory requirements and our forecasts indicate this will continue to be the case, even allowing for currently proposed changes in the UK's capital requirements framework.

Viability statement

In making the viability statement the directors considered the three-year period commencing on 1 October 2024. This aligns with the horizons used for the risk evaluation exercise which is performed annually and facilitated by the CRO.

The directors considered:

- The financial and business position at the year end, described in Sections A3 and A4
- The forecasts and the assumptions on which they were based
- Prospective access to future funding, both wholesale and retail
- Stress testing carried out as part of the ICAAP, ILAAP and forecasting processes
- The activities of the risk management process throughout the period
- Risk monitoring activities carried out by the Risk and Compliance Committee
- Internal Audit reports in the year

Having considered all the factors described above, the directors believe that the Group is well placed to manage its business risks, including solvency and liquidity risks, successfully.

On this basis, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period commencing on 1 October 2024.

While this statement is given in respect of the three-year period specified above, it should be noted that its risk evaluation exercise also includes a high-level view extending to September 2029 and the directors have no reason to believe that the business will not be viable over the longer term. However, given the inherent uncertainties involved in forecasting over longer periods, the shorter period has been adopted for the purposes of this viability statement.

Going concern statement

Accounting standards require the directors to assess the Group's ability to continue to adopt the going concern basis of accounting. In performing this assessment, the directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them, having regard to the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the FRC in September 2014. The guidance requires that this assessment covers a period of at least twelve months from the date of approval of the financial statements.

In order to assess the appropriateness of the going concern basis, the directors considered the financial position, the cash flow requirements laid out in the forecasts, our access to funding, the assumptions underlying the forecasts and the potential risks affecting them. As part of this exercise the potential impacts on funding, capital and cash of our exposure to issues relating to historic motor finance commissions was considered.

After performing this assessment, the directors concluded that it was appropriate for them to continue to adopt the going concern basis in preparing the Annual Report and Accounts.

A6. Citizenship and sustainability

We believe that the long-term interests of shareholders, employees, customers, communities and other stakeholders are best served by acting in a socially responsible manner and aim to ensure that a high standard of corporate governance and corporate responsibility is maintained in all areas of our business and operations.

Sustainability is central to our long-term success, and we are committed to our responsibilities as a good corporate citizen. We aim to reduce the impact that our operations and our customers have on the environment, have a positive effect on all our stakeholders and support the communities in which we operate. In the current year our approach has been enhanced through a comprehensive materiality assessment, highlighting top priorities and areas where we could influence change and have the greatest impact.

Alongside a regular strategic update on sustainability provided by the CEO, the Board receives an annual sustainability update that provides feedback on developments on climate and the wider ESG framework through the year and which sets out a proposed strategy for future initiatives. This update is supported by a detailed assessment of climate, provided across two modules within the ICAAP, which includes an assessment of the inherent strategic risks and opportunities. The Risk and Compliance Committee provides regular oversight of climate through their review of the CRO's risk report. The Board's consideration of sustainability issues in its decision making, in accordance with Section 172 of the Companies Act, is discussed further in Section B4.3.

The Sustainability Committee ensures that an overall strategic focus on sustainability issues is maintained at senior management level. The committee comprises relevant ExCo members, including the three managing directors responsible for our product lines, and other responsible senior managers. It is chaired by Deborah Bateman, the External Relations Director, meets quarterly and reports to the Executive Performance Committee and Board on a regular basis.

The group-wide Sustainability Charter, which is supported by an internal communication campaign and on-line training provided to all employees, is aimed at raising awareness of a broad range of sustainability issues.

Further information on our sustainability profile and agenda is given in the annual Responsible Business Report, published each December and available on our corporate website at www.paragonbankinggroup.co.uk.

A6.1 Non-financial and sustainability information statement

Information on certain environmental, social and governance matters is included in this strategic report in accordance with Sections 414CA and 414CB of the Companies Act 2006 (the 'Act').

In addition to the description of our business model, discussed in Section A2, the remaining disclosures are given in this Section A6. This includes a discussion of our risk, policies, outcomes and key performance indicators with respect to each of the five areas set out in the Act.

The matters specified in the Act are discussed in the following sections.

	Area	Reference
(a)	Environmental matters	Section A6.4
(b)	Employees	Section A6.3
(c)	Social matters	Section A6.5
(d)	Respect for human rights	Section A6.6
(e)	Anti-corruption and anti-bribery matters	Section A6.7

The climate related financial disclosures required by the Act are presented in Section A6.4 in accordance with the approach set out by the Taskforce on Climate Related Financial Disclosures ('TCFD'). This approach covers all matters set out in Section 2A of Paragraph 414CB of the Act.

This section also includes the information on the directors' engagement with employees required by Section 11 (1)(b) of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) ('Schedule 7') (in Section A6.3) and the information on business relationships with suppliers and customers required by Section 11B of that schedule (in Section A6.7 and Section A6.2).

Sustainability analysts frequently request detail of significant fines or penalties incurred by companies for ESG related incidents, or confirmation that there were no such incidents. We have incurred no such fines greater than US$ 100.0 million in the year (2023: none). Information on penalties and disciplinary incidents relating to sustainability issues is given below in each section, where relevant.

A6.2 Customers

During the year we have maintained our focus on providing high quality customer service, while continuing to align with and embedding the FCA Consumer Duty principles as their scope broadened in the year. While the Consumer Duty does not cover all our customers, with some Commercial Lending and buy-to-let mortgage activities outside its scope, the principle of the Consumer Duty informs the approach to all customers.

Our strategic objective is to be a prudent, risk-focussed, specialist bank with a closely controlled, cost efficient operating model. Customers are at the heart of our business and, as a specialist bank, we use our expertise to provide financial products and support to help them achieve their ambitions.

The fair treatment of customers and the delivery of good outcomes to them is central to the achievement of our strategic business objectives and we have no appetite for any material failure to deliver good outcomes for customers, offering extra support when they need it and listening to their feedback.

Customers can be confident that we will always consider their needs and act fairly and responsibly in our dealings with them. To ensure this, several customer focused management groups are dedicated to improving customer journeys and supporting customers on an ongoing basis.

A cross-functional working group considers those customers in vulnerable circumstances, addressing their needs and any additional support they require, while ensuring that our people, processes and products are able to meet these needs. Over the last twelve months initiatives to improve the experience of such customers have included: enhanced training using external actors providing an immersive role play experience to staff covering topics which include dealing with those in vulnerable circumstances; continued enhancement of our IT systems to improve identification and engagement with such customers; and using available data from outputs-based testing to identify trends and process improvements to enhance service delivery.

While we strive to always provide excellent service, it is inevitable that issues will arise from time-to-time. We regard these as opportunities to improve our processes, and consequently management teams meet monthly to discuss customer feedback and complaints to understand how the levels of service that customers, and potential customers, demand and expect can be maintained and enhanced.

Customer support and understanding are also two of the key outcomes that align to the core delivery requirements of the FCA's Consumer Duty. We have a well-defined and structured project in place that focuses, where they are applicable, on the implementation of the principle, the cross-cutting rules and the consumer outcomes which form part of the Duty. This ensured that the target date for the extension of the Duty to legacy products in July 2024 was achieved.

The desire to provide a high standard of service to our customers, while achieving good outcomes for them, is an important commercial differentiator which has helped us build strong relationships over many years. The ongoing and planned activity across all business units is aimed at ensuring that customers can be confident that:

- Products and services are designed to meet their needs
- People they deal with will be appropriately skilled and experienced to provide the services they require
- Information given to them will be clear and jargon free
- Products will perform as expected
- They will not face unreasonable post-sale barriers to change a product, switch provider, submit a claim or make a complaint
- All complaints will be listened to, and claims assessed carefully, fairly and promptly
- Where applicable, they will be made aware of how they can refer their complaint to the FOS
- If they are in vulnerable circumstances, have additional support needs and/or in financial difficulties, a high level of support will be provided, and they will be signposted to sources of independent advice
- They will be made aware of the FSCS and the protection this provides for them, with a reminder issued annually
- Our standards will protect consumers and deliver good customer outcomes

This pro-active approach accords with the FCA's Principles for Business, particularly regarding delivering good customer outcomes, preventing customer harm and ensuring that all communications are clear, fair and not misleading. Performance in respect of these requirements is monitored and procedures regularly adjusted to deliver better customer solutions.

The Board and executive management are committed to maintaining and developing this culture across our businesses. One output of this process in the year was the issue of a new, simplified Power of Attorney Guide and streamlined process, making it easier for customers, particularly those in vulnerable circumstances, and their representatives to register or activate a Power of Attorney.

We are carefully monitoring the progress of the FCA review of discretionary commission arrangements in the motor finance sector, announced in January 2024 and the related developments in case law in the period and following the year end. We offered motor finance products which might fall within the scope of the review, principally between 2014 and 2020 and have been managing any issues in accordance with FCA guidance. While we believe that customers have not been disadvantaged by business practices adopted at this time, it is not possible to accurately quantify any exposure at present. We will continue to keep the situation under review and respond promptly to regulatory directions and industry best practice as they emerge over the coming months.

Complaints

There will be occasions where we do not get things right and, consequently, this will give customers cause to complain. The effective resolution of complaints is a key focus of our customer service approach, with all business areas following the FCA's Dispute Resolution Sourcebook ('DISP') to ensure consistent and good customer outcomes.

Handling

We aim to resolve complaints at the first point of contact, where possible, but acknowledge that some complaints will require further specialist investigation and time to resolve. Where this is the case, regular contact is maintained with the customer to keep them informed of the progress of their complaint.

Where applicable, 'Alternative Dispute Resolution' information is provided to customers to allow them to appeal to independent third parties if they are not satisfied with our response. These include the FOS and the FLA. Where customers feel the need to appeal externally, we co-operate fully and promptly with any investigations, and support any settlements and awards made by these parties.

Monitoring

To ensure the delivery of consistently good customer outcomes, we have established complaint reporting forums in all business areas, which enable the effective discussion of complaint volumes, trends and root cause analysis. This ensures that all business lines effectively resolve customer complaints, learn from the issues raised and take reasonable steps address any underlying causes of those complaints.

The effectiveness of this activity is regularly assessed through independent first line outcomes testing, ensuring ongoing competence in the identification and resolution of complaints. The reporting of this activity flows to the Customer and Conduct Committee ('CCC'), ensuring complaint visibility is provided at the highest levels of the business.

We actively seek feedback on our complaint handling process, using an automated survey as appropriate, with customers invited to provide feedback on the way in which they feel their complaints have been dealt with. The results are used to share best practice, improve agent education, and identify potential process improvements.

There is an active Complaints Community group that meets regularly, where all business areas are represented. This ensures complaints are handled consistently and that industry updates, knowledge and best practice are shared with all business units concerned with complaint handling.

We focus on FOS complaints data as a high-level satisfaction metric, and incident rates remained low throughout the year. Consolidated information for the two Group companies required to report to FOS, for the four most recent FOS reporting periods, is set out below. In the most recent period only one of the companies met the threshold number of cases for the publication of its data by FOS, with neither company meeting the threshold in the preceding period.

	Six months ended			
	30 June 2024	31 December 2023	30 June 2023	31 December 2022
Cases reported	**79**	48	57	44
Uphold rate	**16.0%**	26.1%	36.2%	15.2%

The upward movement in the number of cases reported is principally a function of increased complaint levels around motor finance, which have been seen across the industry, potentially driven by publicity around the FCA's discretionary commission review and related litigations. Our uphold rates remain positive, compared to industry averages.

The overall industry uphold rate reported by FOS for the six months ended 30 June 2024 was 35% compared to 36% in the six months ended 31 December 2023 and 37% in the six months ended 30 June 2023. FOS data across the financial services industry is published on the ombudsman's website at www.financial-ombudsman.org.uk.

We routinely benchmark our complaints performance against the FCA bi-annual complaints data, comparing key complaint metrics to our peers and against the industry. Metrics on customer complaints are an important management information measure for the Board and form part of the determination of management bonuses and the vesting conditions for the share-based remuneration described in the Directors' Remuneration Report (Section B7).

A6.3 People

Over 1,400 people across the UK work in our businesses, with the majority based at our Head Office in Solihull. We provide a flexible hybrid working model, promoting a healthy work life balance by understanding the strategic benefits a flexible workforce brings in creating diversity, engagement, and retention.

We aim to provide opportunities for varied and rewarding careers, offering training and coaching opportunities to enable people to meet their own ambitions whilst delivering the objectives of our business.

Employee engagement

We use surveys as a means of gathering employee opinion on our approach to being a responsible business, and to assess our progress towards becoming a more inclusive employer. During the period new employee onboarding and leaver surveys were rolled out, with a set of strong initial results, particularly on questions covering culture and inclusion.

In results to date, 92% of employees onboarded in the period believed they could bring their whole self to work, with 96% stating they felt proud to work for us. 100% of new employees believe we are committed to delivering good customer outcomes. Amongst leavers, 72% reported they had had a positive working experience. Both leavers and joiners described the business as being a welcoming, supportive, inclusive and professional employer.

Employment conditions

All our employees are based in the UK, and we are committed to upholding all aspects of UK employment law, including legislation addressing terms of service, working conditions, day one flexible working, carers leave, extended maternity, adoption and shared parental leave protection, equality and taxation.

We minimise the use of short-term and temporary staff, with no use of zero-hour contracts. As of 30 September 2024, people on temporary or short-term contracts accounted for only 0.6% of the workforce (2023: 1.2%). We will normally only employ those over the age of 18, except in connection with apprenticeship or other formal training programmes.

During the period the decision was made to bring together all Solihull-based employees at our Homer Road head office building, vacating other premises. This should bring operational areas of the business closer together, fostering better collaboration.

During the year we signed the "The Better Hiring Charter", developed by the Better Hiring Institute ('BHI'), with Anne Barnett, our Chief People Officer, joining the BHI's new Parliamentary Steering Committee. The Charter, which is available on the BHI website at www.betterhiringinstitute.co.uk, commits signatories to ten principles to make hiring faster, fairer and safer for all candidates, including improving transparency in job adverts and descriptions, promoting equity, diversity and inclusion, and reducing barriers for women.

Our voluntary employee turnover has remained stable during the year at 9.1% (2023: 9.6%). The overall attrition rate, excluding redundancy, at 10.8% for the year (2023: 11.4%), remains lower than the average rate in the banking and finance sector. Overall attrition for the sector stands at 19.8% reported by Reward Gateway, with a rate for the financial services sector of 12.8% published by CIPD and Office of National Statistics in May 2024.

We benefit from a diverse workforce spanning four generational groups, with employees collaborating across our businesses to meet strategic objectives. We retain the extensive experience of a significant number of long-serving employees at all levels. 33.9% of the workforce at 30 September 2024 had served for over ten years with 12.5% having been with us for more than two decades.

Most of our roles involve hybrid working with over 65% of staff working from home at any given time. Flexible working is strongly encouraged across all areas to support a healthy work-life balance and to ensure we retain the skills and experience of our valued employees. Formal flexible working arrangements are in place for 24.8% of employees (2023: 22.3%), with 71.4% of these working part-time (2023: 78.5%). Compliance with the Working Time Regulations is regularly monitored.

As part of our commitment to employee wellbeing and recognising the importance of a healthy work-life balance, we offer most full-time employees a minimum of 26 days holiday per year, excluding public holidays, in excess of UK legal requirements. In addition, all employees are granted an additional full day's leave for Christmas Eve and New Year's Eve; meaning that most full-time employees have a minimum of 28 days paid leave each year, in addition to public holidays.

We have been an accredited Living Wage Foundation employer since June 2016. As such, we pay all employees, including apprentices, at least the Real Living Wage, set by the Foundation. We also ensure that wages paid by contractors and suppliers meet the same threshold. This Real Living Wage Rate was £12.00 per hour at 30 September 2024, rising to £12.60 per hour in October 2024, with a higher rate payable for London-based employees. As such, it is higher than the UK's national minimum wage rate, and we are therefore also compliant with the statutory requirement. From 1 October 2024 our minimum wage rate rose to £12.69 per hour, for all employees, equivalent to a full time equivalent annual wage of £24,750.

As part of our sustainability strategy we operate salary sacrifice schemes for cycle-to-work and electric vehicles. At 30 September 2024, 4.5% of employees opted for one or both schemes, which are described further in Section A6.4.

We offer employees a defined contribution pension scheme which complies with the UK Government's auto-enrolment requirements; 87.6% of employees are members of this scheme (2023: 89.4%). Additionally, a legacy defined benefit pension scheme is also in place for long-serving employees. Overall, the Group is contributing towards the retirement provision of 93.9% of its employees (2023: 96.1%).

Culture

All employees are required to attest annually to our employee Code of Conduct, confirming their understanding of the expectations set out in the Code and, at 30 September 2024, 100% of employees had done so. The Code of Conduct provides additional guidance on expected behaviours when interacting with colleagues, customers, and other stakeholders, and is crucial for fostering and embedding our strong risk culture.

During the year the Consumer Duty has been fully embedded in the culture of our businesses, enhancing working practices to drive good customer outcomes. To support the further strengthening of our culture across the business, an internal "Think" campaign was launched in the year, encouraging employees to focus on five key areas, customer, people, risk, commercial and sustainability.

We recognise that a customer-centric approach is essential and the introduction of a Purpose and Performance Profile ('PPP') for each employee, with the inclusion of "Think Customer" objectives for all employees ensures this focus in our culture.

Equality, diversity and inclusion

Our Equality, Diversity and Inclusion ('EDI') strategy was formalised in the year, focusing on three areas: gender, ethnicity and socio-economic background ('SEB').

Our vision is to:

- *Ensure that all individuals, regardless of their background, have the opportunity for personal and professional growth, and feel included, valued and respected*
- *Create and promote opportunities where diverse talent can thrive, everyone is treated equitably, and all perspectives are encouraged to contribute, leading to innovative solutions*
- *Work towards a culture that reflects the diversity of our communities*

We chose to focus on gender, ethnicity and SEB in support of our commitment to the FTSE Women Leaders Review and the Parker Review. SEB has been identified in our industry to be a "golden thread" characteristic which often intersects with many other characteristics. This focus also supports our status as founding members of Progress Together, the industry body committed to promoting socio-economic diversity across the financial services sector.

As part of our focus on these areas we have committed to achieving 40% female representation in Senior Management by December 2025, and 5% ethnic minority representation in Senior Management by December 2027, where 'Senior Management' is defined as ExCo members and their direct reports, excluding administrative staff, in line with the definition adopted by the FTSE Women Leaders and Parker Reviews.

We promote equality amongst all employees through our policies, procedures, and practices. Every employee is entitled to a work environment that upholds dignity, equality and respect for all. We do not tolerate any acts of unlawful or unfair discrimination (including harassment) committed against an employee, contractor, job applicant or visitor because of a protected characteristic such as:

- sex
- gender reassignment
- marriage and civil partnership
- pregnancy and maternity
- race (including ethnic origin, colour, nationality and national origin)
- disability
- sexual orientation
- religion and or belief
- age

Discrimination on the basis of work pattern (part-time working, fixed term contract, flexible working) which is unjustifiable will also not be tolerated.

The Board believes the achievement of a balanced workforce at all levels delivers the best culture, behaviours, customer outcomes, profitability and productivity and therefore supports the success of the business. The Nomination Committee provides board-level oversight on all inclusivity matters affecting our employees.

The internal EDI Network continues to shape our EDI strategy and initiatives, and is now sponsored at executive level by Ben Whibley, our CRO. The network continues to focus on raising awareness and understanding of the importance of creating an inclusive culture and diverse workforce through varied internal communication campaigns. Celebrations in the period included Black History Month, Disability History Month, International Women's Day and Pride at Paragon.

Socio-economic diversity

In support of our focus on SEB diversity and as a founding member of Progress Together, we, along with other firms, are participating in their Accelerated Progress Programme ('APP'). This is a unique, twelve-month cross-company programme, designed to develop, empower, and unlock the potential of high-performing middle managers from low socio-economic backgrounds, with individuals receiving development, mentoring and the opportunity to work collaboratively across organisations on defined projects. This participation supports the delivery of our EDI strategy to attract, increase and retain diverse representation.

We have continued to form working relationships with inner-city colleges and schools as a means of attracting talent from more diverse backgrounds. In the year, 13.3% of the employee volunteering days described in Section A6.5 were completed in local schools (2023: 12.8%).

The Good Youth Employment Charter

We recognise the benefits of early careers, and the diversity of skills that young employees can bring and remain committed to the Good Youth Employment Charter. We are also a Gold Member of the '5% club', which promotes the provision of early careers roles such as apprenticeships, graduate positions, and student placements. As part of this commitment we have set a target that such early careers roles will comprise at least 5% of our workforce by September 2027, compared to 1.6% at 30 September 2024.

As a youth-friendly employer, we work to create opportunities for young people, and to bridge the gap between education and employment through a range of events with schools and colleges, helping them to gain the skills and experiences they need, through meaningful and good quality experiences. Our involvement in providing these opportunities is described further in the community involvement section (Section A6.5).

Race at Work Charter

We are a signatory of the Race at Work Charter and committed to meeting the charter requirements. This commitment includes the continuation of 'Mission INCLUDE', a mentoring scheme for employees from under-represented groups. The programme provides high-potential employees with a mentor from another organisation who is also a member of an under-represented group or an ally. During the period we supported four employees through this programme.

We have also continued our internal 'Ignite' development programme, tailored for employees who have specific protected characteristics or who may face more barriers in the workplace. The programme focuses on providing greater career support to employees in under-represented groups and addressing personal development needs such as making an impact, building personal brand and networking.

Disability Confident

Employees identifying as having a disability comprise 6.3% of those completing their diversity profile (2023: 5.6%). We are a Disability Confident Employer under the UK Government Disability Confident scheme. As well as continuing to provide paid employment to people with disabilities, providing appropriate training opportunities to such employees, and complying with all relevant legislation, we meet the five core commitments of a Disability Confident organisation:

- It will ensure its recruitment process is inclusive and accessible
- It will communicate and promote vacancies
- It will offer an interview to disabled people
- It will anticipate and provide reasonable adjustments as required
- It will support any existing employee who acquires a disability or long-term health condition, enabling them to stay in work

Disability Confident Employer status represents level two of the scheme, and we are working towards level three – 'Disability Confident Leader'.

We give full and fair consideration to applications for employment made by people with disabilities. We also make every effort to retrain and support employees who are affected by disability during their employment, including the provision of flexible working to assist their return to work, and we aim to ensure all employees with disabilities have the opportunity to fulfil their potential.

Gender diversity

The Women in Finance Charter, sponsored by HM Treasury, is an initiative amongst financial services companies in the UK, aimed at promoting equality of opportunity in the workplace. Ben Whibley, CRO, is the project sponsor at ExCo level and progress against the Charter requirements is monitored by executive management and at board level.

We are now in the second phase of our charter journey and have committed to achieve 40% female representation in Senior Management by 31 December 2025. At 30 September 2024, female representation in Senior Management was 37.9% (2023: 37.9%).

Our focus on developing female talent to support our Women in Finance Charter commitments has continued. 53% of employees receiving management development are female, and we continue to support the 30% Club Mission Gender Equity cross-company mentoring programme run by Moving Ahead. In addition, two individuals have been supported on the Executive Accelerator programme, which offers females working toward senior executive roles the opportunity to be mentored by a NED or chair from another organisation. Alongside the mentoring, the scheme offers an excellent learning programme designed to accelerate and advance women to executive committee level.

Feedback from both mentors and mentees participating in both programmes continues to be favourable, and 20% of participants have progressed their careers within the business since participating in the programme. In comparison, research conducted for the 30% Club showed an average promotion rate of 10% for female managers. The seventh cohort of employees started their programme just before the year end.

Collecting diversity monitoring data

During the year we continued to encourage employees to complete diversity monitoring profiles in our central HR system. Data collected includes information on gender identity, sexual orientation, ethnicity and race, religion, socio-economic background, disabilities, and caring responsibilities. At 30 September 2024, 80.9% of employees had completed their profile (2023: 76.8%).

Gender Pay

As required by legislation, we have calculated our gender pay gap as at April 2024. These results will be published on the UK Government website and on our own website and are summarised below.

	April 2024	April 2023
Median gender pay gap	**31.0%**	33.5%
Mean gender pay gap	**36.4%**	35.0%
Median bonus pay gap	**1.0%**	0.5%
Mean bonus pay gap	**75.4%**	70.5%

This year's gender pay measures are broadly similar to those for 2023 and remain larger than we would like. Monitoring of these differences continues, but analysis attributes them to be principally due to the seniority and nature of roles that men and women are undertaking in the organisation. The marginal increase in the number of women in the upper quartile is contributing towards the small improvement in the median pay gap.

The results are broadly in line with the median figure of 31.9% for the financial services sector reported by the Office of National Statistics in their 2024 Annual Survey of Hours and Earnings ('ASHE'), published in October 2024 (2023: 34.3%). The mean pay gap for the industry reported by the ASHE, which is more influenced by operational structures, was 28.0% (2023: 25.2%).

Roles in the lower pay quartiles are typically operational and processing positions, predominantly filled by female employees. These roles lend themselves particularly well to part-time working arrangements. Throughout the workforce, females account for most of the part-time working arrangements and, due to the nature of the gender pay gap calculation taking no account of the hours worked by employees in calculating averages, this further increases the size of the gender pay gap.

The majority (87.3%) of our employees are eligible for a bonus under the Profit Related Pay ('PRP') scheme. As all qualifying employees receive the same bonus on an FTE basis, these awards lead to the small median bonus pay gap. The pay gap data includes discretionary bonus awards for 19.8% of employees (34.3% of whom were women) and amounts for share based awards for 5.7% of the workforce (excluding those who received amounts in respect of the all-employee £1,000 post-Covid award made in 2020, which matured in the year), of whom 28.4% are female. This means that discretionary and share based bonus schemes are disproportionately awarded to men, and the size of the mean bonus gap is further driven by the bonuses awarded to the most senior executives, the majority of whom are male.

We analyse gender pay gap data on an ongoing basis to identify potential issues and determine what action might be required. However, work carried out during the year, reviewing groups of directly comparable positions, did not suggest evidence of systematic gender bias or unequal pay practices.

Composition of the workforce

During the year the workforce reduced by 7.3% to 1,411 employees (2023: 1,522). Information on the composition of the workforce at the year end is summarised below:

	2024 Females	**2024 Males**	2023 Females	2023 Males
All employees				
Number	**724**	**687**	774	748
Percentage	**51.3%**	**48.7%**	50.9%	49.1%
Directors				
Number	**4**	**6**	4	6
Percentage	**40%**	**60%**	40%	60%
Senior managers				
Number	**12**	**33**	12	36
Percentage	**26.7%**	**73.3%**	25.0%	75.0%
Other managers				
Number	**110**	**185**	119	171
Percentage	**37.3%**	**62.7%**	41.1%	58.9%

In this table 'managers' include all employees with management responsibilities. The definition of 'senior manager' used in the table above is that required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 which differs from that used by the FTSE Women Leaders Initiative and for internal purposes.

Ethnic minority representation in the workforce is analysed below using the same categories as in the previous table. The table shows employees identifying as members of a non-white ethnic group as a percentage of the total workforce and as a percentage of the 80.9% of employees declaring their ethnicity (2023: 72.6%).

	All employees		**Declared ethnicities**	
	2024	2023	**2024**	2023
All employees	**12.9%**	11.9%	**16.7%**	16.3%
Directors	**10.0%**	10.0%	**10.0%**	10.0%
Senior managers	**2.2%**	4.3%	**2.6%**	2.6%
Other managers	**10.2%**	8.9%	**12.0%**	11.6%

Health and wellbeing

We remain dedicated to supporting our employees' wellbeing, providing continued support with emotional, physical, financial and social wellbeing issues. Anne Barnett, Chief People Officer, the Executive Sponsor for Wellbeing, ensures that this commitment goes to the highest levels of management.

The focus on financial wellbeing and employee benefits has continued in response to ongoing cost-of-living issues, with various campaigns and support avenues, including providing access to free will writing services, support with budgeting and debt management, as well as pensions advice.

This year we were pleased to endorse the Mortgage Industry Mental Health Charter ('MIMHC'), demonstrating our commitment to prioritising mental health within the mortgage industry. We are working closely with MIMHC, an industry initiative, to raise awareness, reduce stigma and help to ensure that mental health remains a top priority in the sector, creating a more supportive and empathetic mortgage industry.

We provide access to trained mental health first aiders, with additional training available to all team members on grief and bereavement, trauma, and suicide awareness from external specialists. In addition to the support provided by our Wellbeing team, employees also have access to a dedicated Wellbeing Hub signposting specialist support services providing help with issues such domestic violence or bereavement, as well as numerous resources to help with a wide range of wellbeing issues.

During the year four Menopause Champions were designated, two of whom are male. These champions are committed to providing additional support to employees and managers, focussing on employee engagement, productivity and retention of the female workforce.

We continue to support the Pregnancy Loss Pledge, encouraging a supportive environment where people feel able to discuss and disclose pregnancy or loss without fear of being disadvantaged or discriminated against.

Other wellness initiatives during the year included:

- Introduction of an enhanced fertility policy, with paid leave for those undergoing treatment and their partners, responding to an initiative from the People Forum
- A focus on men's health with an International Men's Day 'lunch and learn' on prostate cancer awareness and a "tough to talk" suicide awareness workshop specifically for male employees
- Promotion of 'WeCare', an online health service provided to employees and their families, providing 24 / 7 UK-based online GP services, mental health counselling, get fit programmes, and legal and financial guidance.

The Vitality Health programme continues to be available to employees, with 100% enrolment. This provides access to an extensive range of physical wellbeing products and services, including health reviews, online GP services and Vitality Wellbeing Coaches. Additionally, free exercise classes are available in our offices, as part of our commitment to enhancing employees' physical wellbeing.

Training and development

Our focus on providing employees with quality opportunities to develop, whether in person or virtually, continued through the year. Training opportunities provided included: regular online modules undertaken by all employees on various topics including regulatory requirements; training supporting business developments; support for employees undertaking apprenticeships and professional qualifications; and initiatives supporting career development.

On average employees received 4.4 days training each in the period (2023: 3.5 days). This is above the average figure of 3.6 days per person reported by the 2022 Employer Skills Survey, published by the UK Department for Education in September 2023, the most recent national survey of training provision.

Development opportunities form a key part of our EDI strategy, and our commitments to the Mission Gender Equity, Mission Include and Ignite programmes are described above.

During the year new 'Purpose and Performance Profiles' ('PPPs') were rolled out for all employees. PPPs define roles linking them to our purpose and the contribution each individual makes towards the delivery of our strategic priorities. They are used as an equivalent of the role description for talent attraction and recruitment, and a tool for ongoing performance, development and 'top talent' identification, with objectives linked to our values and priorities.

Line managers are encouraged to regularly review PPPs and discuss individual performance throughout the year, supporting individual performance and personal development, facilitating the management of rising talent, and furthering our succession planning. This initiative has been further underpinned by Talent Calibration sessions with the leadership teams, ensuring consistency and fairness in how performance and personal development is managed.

During the year our learning team collaborated with focus groups to understand the effectiveness of the "Think Customer" approach, outcomes of which fed into the ongoing Consumer Duty training. This included 'Achieving Customer Excellence' sessions, delivered to 54 operational employees using actors to simulate customer interactions. Other initiatives included e-learning support and an additional focus on helping support functions understand how their roles help to ensure good customer outcomes.

A major focus for our training team in the year was preparing employees for the introduction of the new origination platform in the Mortgage Lending business. A variety of support was provided through videos and in-person sessions to help ensure its successful introduction, providing people with confidence in using the new tools available to them.

We continue to focus on ensuring all our employees understand their roles in supporting vulnerable customers through e-learning, with the roll-out of an interactive solution, supplemented with bespoke courses for people in customer-facing roles.

At 30 September 2024, 21 apprenticeships were in progress in a variety of roles (2023: 77). Over the last year 39 individuals successfully completed an apprenticeship in the business. These apprenticeships covered a range of specialist and operational roles including IT, audit, customer services and management. Our utilisation of available apprenticeship levy funds over the year has fallen to 38.8% (2023: 50%), due to the drop in the number of qualifying apprenticeships. Changes to our approach to management development mean there are less such courses which qualify for apprenticeship status than in previous years. We have also pledged 10% of our levy entitlement towards funding apprenticeships in smaller SMEs.

We currently have 61 individuals completing professional qualifications (2023: 75), including 21 undertaking the London Institute of Banking and Finance CeMap mortgage qualification (2023: 35). Of these 51% are female (2023: 53%) contributing towards our EDI objectives.

Employees' involvement

The directors acknowledge the importance of keeping all employees informed about the progress of the business. Executive directors provide biannual updates on business progress to the entire workforce which continue to be delivered through video messages. Executive Committee members also use the intranet to deliver updates on important initiatives within the business from time-to-time. 'Network News', an email newsletter, regularly provides employees with the latest news and information from across the People Forum, Wellbeing Team, EDI Network and Charity Committee.

The Paragon People Forum meets regularly and is attended by employee representatives from each area of the business. Its main purpose is to facilitate communication and information sharing throughout the business, providing a platform for employees to be consulted and offer feedback on matters affecting them.

The Forum has been designated as the primary channel through which the Board receives information on the views of the workforce, either through directors' attendance at meetings or through the Chief People Officer who reports to the Executive Committee and the Nomination Committee on matters raised. This satisfies the 'Employee Voice' provisions of the UK Corporate Governance Code.

During the period representatives met with non-executive directors and guest speakers to discuss topics such as pay and benefits, the Consumer Duty, and equality and diversity. Initiatives launched in the Forum provided input into the office relocation and our enhanced fertility policy.

To involve employees in our financial performance, we offer a Sharesave share option scheme and a profit-sharing scheme to all employees below management level. The profit-sharing scheme provided a benefit of around £2,400 to eligible employees on a full-time equivalent basis, while employees who were members of the 2021 three-year sharesave scheme, which matured in the year, were able to buy shares with a market value in the region of £7.00 each for an option price of £4.24.

At 30 September 2024, 63.6% of current employees were members of one or more Sharesave scheme (2023: 63%) and 87.3% were eligible for profit related pay in respect of the 2024 financial year (2023: 87%).

Additionally the share based award granted to all employees below management level in 2020 in recognition of their efforts during the Covid pandemic matured in the year, providing an additional benefit of around £1,400 on a full-time equivalent basis to employees from that time who have remained on the payroll.

Health and Safety

Over the past year, we have consistently met all relevant health and safety regulations and implemented best management practices throughout our operations. We are committed to ensuring a healthy and safe work environment for all employees, contractors and visitors to our sites, as well as for those impacted by our activities in public areas. While our primary source of health and safety related risk arises from the vehicle maintenance operations of Specialist Fleet Services Limited ('SFS'), the health, safety and wellbeing of employees across the whole business is a key focus of our people policies.

Our head office is in central Solihull, therefore exposed to indirect impacts from neighbouring properties. An annual testing programme addresses fire evacuation, network grid failures and physical security as a minimum. This programme's focus is on ensuring that the key processes needed to mitigate any disruption are simulated, that our operations remain resilient, and that adequate appropriate resources would be available to effectively manage an incident.

A rolling programme of periodic inspections and audits is implemented across all our premises, to identify specific health, safety and welfare issues and highlight any emerging trends. Any individual hazards identified have had proportionate action taken to mitigate any recurrence via targeted safety training or specific safety communications.

Access to appropriate equipment for employees has been reviewed and procedures developed to ensure a safe and healthy working environment is maintained, enabling them to work effectively, whether they are in one of our offices or workshops, working from home or operating off-site. The communication of key policies and procedures remains central to our safety and wellbeing initiatives.

Employees, wherever they are based, are encouraged to report any concerns in line with our stated health and safety objectives. They are provided with further opportunities to raise concerns through engagement with their site contact for health and safety or their People Forum representatives, and to shape future initiatives to enhance health, safety and wellbeing.

Training and awareness

During the year 106 employees were provided with training related to specific health and safety risks associated with their roles, as part of our ongoing development programme. This training was focussed in areas such as the Surveyors, Group Systems, Group Property, Maintenance, and Development Finance teams, whose roles include a significant element of off-site working. The initiative aimed to increase employees' awareness of safety information relevant to their responsibilities.

Employees are provided with regular intranet communications on key topics including fire evacuation, driving for work, personal emergency evacuation plans, electrical visual inspections of IT equipment and peoples' individual health and safety responsibilities. Group policies also provide further information.

SFS employees in automotive workshop roles each additionally receive, on average, 40 hours of continuous training each year, to ensure awareness of the specific issues inherent in their duties and working environment to mitigate the inherent heightened risk.

Management and systems

A specific team within the facilities function addresses health, safety, and operational sustainability issues. This team ultimately reports to the Chief Operating Officer, the Executive Committee member responsible for health and safety. Health and safety incidents are categorised as operational risk incidents within the risk management framework. These are monitored through the operational risk management system and subjected to the same risk evaluation processes as other operational risks monitored by the Operational Risk Committee ('ORC').

The Group, excluding SFS, is certified to ISO45001:2018 for its Occupational Health and Safety Management System ('OHSMS'). This system undergoes regular audits by the Enterprise Risk function and is externally verified annually by a UKAS accredited auditor to ensure compliance. The OHSMS serves as the primary governance framework for locations not within the scope of the OHSMS itself, ensuring adherence to all relevant health and safety legal requirements.

SFS, as a result of the higher risk level inherent in its activities, has its own dedicated health and safety manager and operates its own ISO45001:2018 certified OHSMS. This is audited for compliance on an annual basis by a UKAS accredited auditor. Incidents are investigated using specialist local resource with access to group support as required.

Performance

Health and safety performance continues to be good, with the number of incidents remaining at a low level. During the financial year ended 30 September 2024 there were no prosecutions or any enforcement action from visits by the authorities for non-compliance in respect of health and safety matters (2023: None).

Our premises have consistently adhered to all health and safety standards and regulations throughout the year. The number of fire marshals, first aiders and other qualified staff remains adequate. This compliance is routinely monitored at all locations, following a risk-based strategy that considers occupancy levels. Resource levels for health and safety across our operations were reviewed in the year and found to be sufficient to ensure appropriate standards of health and safety management can be maintained.

During the financial year 17 minor incidents classified as relating-to-work activity or the building environment were reported across the business (2023: 27). There have been two lost-time incidents, with no notifiable reports required under the Reporting of Incidents, Disease and Dangerous Occurrences Regulations 2013 ('RIDDOR') (2023: 1). The incidents reported were minor and resulted in 12 lost days (2023: 3 days). Reported 'near-miss' incidents remain at low levels, with only 9 events raised in the course of the year (2023: 7).

All incident reports are examined to determine the root cause of any incidents and support trend analysis. This involves collaboration with employees to identify any potential workplace hazards, unknown risks or behavioural factors. Corrective and preventive actions are then taken to address any issues identified.

The major milestones achieved to date on our journey to net zero, and our aspirations for the future, are set out below.

Year	Achievement / aspirations
2020	• Climate change designated as a principal risk
2021	• Sustainability Committee established to monitor progress on climate, ESG and sustainability focus areas • Financed emissions of the mortgage portfolio reported for the first time
2022	• Became a member of B4NZ • Began offsetting operational footprint emissions • Baseline to track commitment to net zero emissions operational footprint by 2030
2023	• Became a member of PCAF • Enhanced climate change scenario analysis. Science-based target pathway analysis undertaken for the mortgage portfolio • Expanded financed emissions balance sheet to include elements of our Commercial Lending division • Decarbonisation assessment of our head office building, which contributes to over 30% of operational footprint emissions
2024	• Refurb-to-let product launched to support landlord customers who wish to upgrade their property • Input to UK Government consultation on EPC data strategy, through B4NZ membership • Third party review of our financed emissions framework conducted with no significant gaps identified
2025	• Project due to refurbish and decarbonise our head office
2030	• Net zero across emissions associated with our operational footprint
2050	• Committed to net zero across all greenhouse gas emission scopes

A6.4 Environmental impact

Climate change is one of the biggest challenges faced by the world today and we continue our strategic focus on both managing our own response and supporting those of our customers. We have committed to achieving net zero, across all attributable greenhouse gas ('GHG') emissions, including financed emissions, by 2050 but, in doing so, recognise that net zero cannot be achieved by any organisation in isolation and that this commitment cannot be achieved without significant and continued government and regulatory focus and broader industry initiatives.

In support of our long-term commitment to net zero, we have committed to reducing the GHG emissions of our operational footprint to net zero by 2030, acknowledging our responsibility for these direct impacts and our responsibility for addressing them.

Through membership of a number of significant initiatives, including Bankers for Net Zero ('B4NZ'), the Partnership for Carbon Accounting Financials ('PCAF') and the Green Finance Institute ('GFI'), we support the wider efforts of the financial services industry to minimise the impact it has on climate change.

This section of our Annual Report and Accounts provides disclosures on our climate-related impacts and the way in which we manage them on the basis set out by the Taskforce on Climate-related Financial Disclosures ('TCFD'). More detail on how the disclosures suggested by the TCFD are presented is set out at the end of this section.

Impacts of climate change

Our environmental impacts can be considered under two headings, internal impacts (or operational footprint) and the impact of our lending activities (the external or downstream impacts). As we are mainly engaged in the financial services industry, operating in the UK, our own operational activities are considered to have a relatively low direct impact on the environment and climate change.

We have offset the emissions attributable to our operational footprint in the year ended 30 September 2024 through the purchase of carbon credits certified under the Gold Standard programme, one of the most widely accepted international certification systems. More detail on the Group's approach to managing the environmental impact of its own activities and operations is provided under '(f) Operational impacts'.

Our external, or downstream, impacts arise from the use to which customers put the funds loaned to them. Most directly, for asset-backed lending, including lending on property, it relates to the impacts of the asset being financed and its use by the customer.

These downstream impacts give rise to two related groups of risks for our business:

- Physical risks – Increased financial risks as a direct result of climate change and other environmental factors. As an example, increased flooding risk might have an adverse impact on security asset valuations

- Transitional risks – Financial or reputational risks arising from policy, legal, technology and market changes aimed at mitigating the impacts of climate change. Such changes and pressures might impact the ability to realise a security, continue a business line or serve certain types of customer

These classifications are used internally to categorise the financial risks of climate change and we are working to further embed the consideration of both forms of risk across all lending activities.

While our impact on nature and biodiversity is considered low, we recognise the co-dependency between nature and climate change. Our developing approach to managing the impact of climate change also considers any related impacts on nature and biodiversity, both operationally and from our lending activities.

Progress during the year

During 2024 we continued to deliver on the priorities set out in previous reporting. The table below highlights progress on our climate journey in the year, set out by the principal TCFD pillars of governance, strategy, risk management, and metrics and targets.

Governance

- Reporting and escalation to the Board has focused on providing progress updates across our sustainability strategy and validating that the current approach is fit-for-purpose
- Update on investment in sustainability to date and the findings of the independent review of financed emissions framework provided to the Board. No significant deficiencies were identified by the review. The update also covered progress to date across key areas and updated the Board on developments in climate and sustainability strategy resulting from a sustainability materiality assessment and an industry benchmarking exercise
- Qualitative review and quantitative scenario analysis assessment of climate change which was incorporated in the 2024 ICAAP approved by the Board. The assessment also outlined the implications of aligning the business model with the UK Climate Change Committee's net zero pathway

Strategy

- We continue to promote positive sustainable public policy, providing input to UK Government consultations on EPC data strategy through our membership of B4NZ
- Through UK Finance, we provided input across a range of policy developments, among them the FRC review of sustainability assurance, the Transition Plan Taskforce Disclosure Framework consultation and the BCBS consultation on climate-related disclosures in Pillar III
- Our range of products to support customers on their journey to be more sustainable was extended. The refurb-to-let product was launched and the funding available through the Green Homes Initiative was further increased to £300 million
- Green Champions appointed in our SME lending business to further promote our sustainable finance offering to UK SMEs
- Expanded use of scenario analysis modules to assess the alignment and resilience of the mortgage and motor finance portfolio with 1.5° and net zero scenarios

Risk management

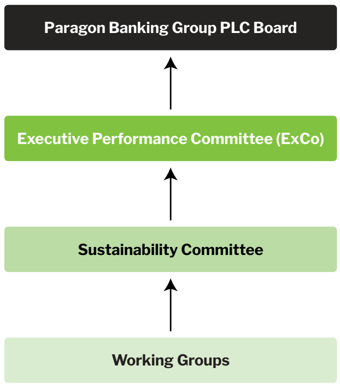
- Internal climate change scenario analysis exercise conducted as part of the 2024 ICAAP. No significant vulnerabilities to climate change identified
- Ongoing programme to update credit standards and limits, managing any exposure to climate-related risks and associated credit risk
- Continued enhancement of the way support can be provided to customers transitioning to new low-carbon technologies whilst maintaining our robust credit standards
- Principal risk policy for climate-related risk updated and approved by the Board further embedding climate change risk within the ERMF

Metrics and targets

- 48.3% reduction in market based emissions for our operational footprint compared to 2019 baseline (2023: 41.8%)
- Financed emissions balance sheet reporting extended to cover a larger element of the motor vehicle assets. Reporting covers 85% of relevant balances
- Independent review of financed emissions reporting framework identified no significant gaps
- 53.4% of new advances in our mortgage portfolio were EPC rated A-C (2023: 49.9%)

(a) Governance

i) Climate and sustainability governance structure



The governance structure outlines how climate and sustainability related matters are escalated throughout the business and upwards to the Board.

The approach to managing climate change risk is incorporated within the ERMF to ensure a consistent and comprehensive approach is taken across the business. In addition to this reporting structure, the Sustainability Committee and its working groups provide relevant reports to the ERC and its sub-committees where appropriate. To ensure climate risk is adequately considered across the business the terms of reference of key executive risk sub-committees incorporate the consideration of climate change. The overall governance structure is described more fully in Section B.

ii) Board oversight of climate change

Climate change risk is a principal risk within the ERMF, therefore, information and metrics on climate change risk are considered at board level and tabled at Risk and Compliance Committee meetings throughout the year as part of the wider report from the CRO. The CFO has been designated as the director responsible for climate change matters and has an individual performance target to understand and assess the financial risks arising from climate change and to oversee these risks within the overall business strategy and risk appetites. Performance against this objective is assessed annually and impacts the bonus or incentive he receives (see Section B7).

Regular engagement by the Board and enhanced governance act as key channels for the consideration of climate change within the setting of performance objectives and their monitoring. The Board is updated on a regular basis through the CEO's monthly report, which provides oversight of sustainability and climate-related matters and how they impact strategy. The Board is also provided with more detailed updates on emerging issues and developments through regular presentations conducted by our sustainability team.

In addition, during the year the Board reviewed and approved climate change scenario analysis prepared for the 2024 ICAAP. It also considered the output of an external review which addressed the development of our emissions reporting and benchmarked overall progress on climate change to date, providing oversight to management's response.

iii) Sustainability Committee and climate change working groups

The Sustainability Committee, chaired by the External Relations Director, is a dedicated sustainability governance forum with a broad ESG perspective, including climate change, and reports to the Performance ExCo and the Board on a regular basis. The committee is provided with updates on our key sustainability focus areas, progress within business areas and any wider industry and regulatory developments on sustainability and climate-related issues.

The committee oversees and challenges the identification and management of current, potential and emerging climate change risks and opportunities across all our businesses. This includes oversight of quarterly management information for the mortgage portfolio on climate-related matters, such as data on concentrations of monthly advances, pre and post offer pipeline cases and the financed emissions of the portfolio as a whole.

A series of working groups which report directly into the Sustainability Committee have been established, including personnel from across the business. This ensures that the broad scope of climate-related risks are appropriately identified and managed with oversight through appropriate channels.

Initiatives completed during the year, with the support of the climate change working groups and the Sustainability Committee, include:

- Delivery of training on greenwashing and the updated FCA guidance
- Climate change scenario analysis for inclusion in the 2024 ICAAP
- Quarterly reporting on our operational footprint to track reductions against the 2019 baseline
- Establishing a Base Year Emissions Recalculation Policy, as recommended by the Greenhouse Gas ('GHG') Protocol, documenting the basis and context for any recalculations made to base year emissions
- Taking part in industry benchmarking on net zero with other UK specialist banks
- Working with UKF, B4NZ, the Climate Financial Risk Forum ('CFRF') Scenario Analysis industry Working Group ('SAWG') and PCAF to leverage experience and develop our understanding whilst also providing input to discussions on future policy and processes

Enhanced governance and increased climate-related reporting into the Sustainability Committee and executive risk sub-committees provide a robust process for identifying and managing climate-related risks and opportunities across our businesses.

(b) Strategy

Making a positive contribution to net zero continues to be a focus in addressing climate change. We are committed to achieving net zero for all operational and attributable lending and investment emissions by 2050, supporting national decarbonisation goals. However the scale of the challenge ahead is considerable, and it is clear that without support both from the industry as a whole, and from national and international policy makers and regulators, no business is likely to achieve net zero solely by its own efforts.

Core to our climate change strategy is to act where we can have a positive and meaningful impact. Our decarbonisation approach focuses on reducing the emissions associated with our operational footprint, and on reducing financed emissions through customer engagement and education, and by lending on sustainable products. We also actively engage in public policy advocacy through industry initiatives and collaborations, including B4NZ and the GFI, promoting the development of the policy and regulatory framework necessary to support a just and fair transition to net zero.

Our purpose and our overall strategic objectives are not expected to change significantly in response to the impacts of climate change. Our products, customers and the types of assets we fund will evolve over time as the UK economy transitions to net zero, but this is fully aligned with our purpose of supporting the ambitions of the people and the businesses of the UK by delivering specialist financial services.

There continue to be some areas where technological advancements are required, to help us meet our goals, and those of our customers. These include the availability of affordable like-for-like replacements where customers wish to move away from assets powered by fossil fuels. It is expected that these technologies and their supporting infrastructure will become available in the future aligned with the UK economy's planned transition to net zero by 2050.

i) Climate related opportunities

Business opportunities related to climate change are continuously identified and addressed through the efforts of working groups and the governance and escalation structure of the Sustainability Committee. Our strategy aims to support customers in their transition to a low carbon economy.

In March 2021 we became the first bank in the UK to issue a green tier-2 capital instrument. The Bond set out our ambition to finance £150.0 million of newly originated EPC A or B buy-to-let loans. The Green Bond Investor report, which is available on our corporate website, outlines the progress made up to 31 March 2024, and shows that the full targeted allocation had been reached.

Sustainable finance is a vital mechanism to drive the transition to a low-carbon economy, and we continue to develop products to support customers on their individual sustainability journeys. To incentivise the purchase of more energy-efficient properties, discounted interest rates are offered for landlords securing their mortgage on properties with an EPC rating of C or better. Since the launch of these products, new inflows of mortgages with these higher EPC ratings have exceeded concentrations in the extant portfolio. We also provide support to landlords who wish to carry out work to upgrade EPC ratings in their existing portfolios.

In the development finance business, our Green Homes Initiative offers reduced exit fees to customers constructing highly energy-efficient properties, where the majority of units in a development need to achieve the maximum EPC rating of A to receive the discount. The initiative was launched in 2021 and has been expanded since, following on its successful uptake, with the available funds most recently increasing to £300.0 million in total, during the year.

We also aim to provide support, enabling net zero transition and identification of further opportunities, through education and engagement with customers, brokers, stakeholders and other industry initiatives. In particular, educational articles and blogs have been published covering the development of new EPC requirements for the PRS as they emerge, outlining who they are likely to affect and how they are expected to be enforced, as these themes developed over the year.

ii) Use of scenario analysis

The risks and opportunities from climate change may impact over the short-term (zero to five years), medium-term (five to ten years) or long-term (over ten years). These timelines go beyond a typical planning horizon of five years to appropriately consider the climate change risks which may materialise over a longer period of time.

Our climate change scenario analysis exercise was reperformed as part of the 2024 ICAAP, considering the longer-term risks of climate change. This analysis built on previous risk analyses, which had identified those areas which are most significant to our strategic goals. The mortgage lending and motor finance portfolios were prioritised in the quantitative climate change risk assessment, due to the availability of climate-related data for these asset types.

The approach leveraged the Bank of England's Climate Biennial Exploratory Scenario ('CBES') and Network for Greening the Financial System ('NGFS') to provide a comparable and consistent outcome. Details of the forecasting approaches are outlined below.

Scenario	Outcome
Transition risk	
To assess transition risk across the mortgage portfolio the NGFS 'Net Zero 2050' and 'Fragmented World' scenarios were used to forecast key macroeconomic variables under the influence of climate change. In addition, the impact of achieving compliance with the originally proposed EPC rating of C Minimum Energy Efficiency Standards ('MEES') in the PRS was considered. These two stress drivers were combined to assess the outcome on credit and capital across the mortgage portfolio. Across the motor finance portfolio, asset values were stressed using the CBES early action and late action scenarios to provide an additional Residual Value stress and assess the impact on credit performance.	The outcomes of the analysis suggest that, due to the extended time horizons over which climate risks may materialise, the ongoing uncertainty in future UK Government policy and the minor overall increase to expected credit losses in the scenario, there is currently no significant and quantifiable link to asset values or impairments attributable to the climate-related factors considered.
Physical risk	
The flood risk across the mortgage portfolio was projected to 2050 and 2080 in line with the CBES scenarios. The flood risk projections considered Representative Concentration Pathways ('RCP') of varying severity with RCP 8.5 considered in the 'no additional action scenario' and RCP 2.6 and 4.5 considered in the 'early action' and 'late action' scenarios respectively. The analysis focused on identifying the percentage of the portfolio exposed to high flood risk, and the percentage that would fall into a 1-in-100 year flood risk event zone.	Across the scenarios considered, the analysis indicated a small overall impact over the short and medium term, and, considering both the lack of historic losses and the controls currently in place, the impact of flood risk on mortgage values is not considered to be significant. The involvement of our experienced team of in-house surveyors in the assessment of applications is a key factor in ensuring that this risk is tightly managed.
Net zero scenario analysis	
Analysis was performed considering the emissions across the entirety of our value chain. Although the assessment considered all the attributable emissions, this scenario analysis focused on the decarbonisation of the mortgage lending and motor finance portfolios, aligned with the 1.5°C UK Climate Change Committee's Balanced Net Zero Pathway scenario. The analysis considered the implication of a 2030 interim decarbonisation target, and the key contributors to achieving the required emissions reductions.	Across the mortgage lending portfolio, the analysis identified retrofitting and the electrification of heat as key levers. For motor finance, battery electric vehicle adoption is a key influence. The roll-out of low-emission electricity across the UK also supports the decarbonisation of both asset classes particularly as electric technology is further adopted. The analysis indicated a key dependency for portfolio decarbonisation on appropriate government policy and strategy to drive consumer demand for decarbonisation, retrofit investment and the electrification of heat and transport.

In addition, we repeated the qualitative review of climate change risk and opportunities by business area, first undertaken in 2023. This process is intended to ensure that climate change risks are mitigated, and opportunities captured, wherever material across our business. The review was facilitated by the Sustainability Committee's Financed Emissions and Opportunities Working Group and received groupwide input. The review did not identify any significant impacts on future cash flows, financing arrangements or the cost of capital.

Climate change scenario analysis has improved our understanding of key climate change risk drivers, their potential impact, and the available mitigants. Our approach to scenario analysis will continue to mature as the learnings from the SAWG, which this year focused on short-term scenarios and impacts on nature, are integrated into the process.

The qualitative review and the quantitative scenario analysis performed during the year are central to identifying and assessing the impact and materiality of climate-related risks and opportunities across all of our businesses. The results of both assessments identified no significant gaps or vulnerabilities related to climate change, and confirmed that current processes are fit-for-purpose. The outcomes were presented to, and approved by, the Sustainability Committee and the Board. The delivery of the review across the business further embeds the consideration of climate change within our planning and strategic development processes on a business-as-usual basis.

(c) Risk management

Climate change continues to be further embedded within the ERMF which is designed to align and embed risk management practices across the organisation and for all types of risk. It also provides a methodology for identifying, escalating and monitoring each element of our risk profile. As a designated principal risk, climate change is considered alongside all other such risks in the evaluation of all major capital expenditure, acquisition and divesture proposals.

More detail on the ERMF and our approach to climate change as a principal risk is set out in Sections B8.4 and B8.5.

i) Potential risks identified over the short, medium and long term

Although the impacts of climate change are already current, there is still significant uncertainty around the channels and timings through which the related financial and non-financial risk impacts might materialise. The table below outlines examples of risk drivers considered to be most significant to our business and strategy, and the timeframes over which they might impact. We prioritise risk by magnitude of expected impact and likelihood of the risk materialising.

Source	Risk driver	Most relevant lending area	Most relevant principal risks	Timeframe	Expected impact
			Transition risk		
Current and emerging regulation	Continued tightening of energy efficiency regulations in the private rented sector and buildings regulations in the UK	Mortgage lending	Credit, capital, liquidity and operational	Short and medium term	**Low** Although controls are in place to reduce the risk of impacts from current and future regulation, the potential fast pace of change of policy and regulation in this area could increase the impact Scenario analysis performed during the year highlighted a minor overall impact to credit and capital
Technology	Transition to low-carbon technologies which could impact asset values and infrastructure requirements Includes the risk that some new low-carbon technologies may prove ineffective	SME lending and motor finance	Credit	Short and medium term	**Low** A prudent approach to new and developing technology is taken and we have robust controls and reporting to limit exposure to obsolescent technologies
Reputation	Increased stakeholder, shareholder and regulatory scrutiny if there is perceived to be a lack of action to mitigate climate change	All	Reputational	Short and medium term	**Low** We have a robust climate change strategy, and our businesses have a very low exposure to climate sensitive sectors

Source	Risk driver	Most relevant lending area	Most relevant principal risks	Timeframe	Expected impact
			Physical risk		
Acute	Damage to property, business disruption and higher insurance costs from climate driven events such as flooding	Mortgage lending and development finance	Credit, capital and operational	Short, medium and long term	**Low** Both our business assets and our lending portfolios have low exposure to physical risk and appropriate controls and procedures are in place to reduce the impact of this risk Scenario analysis performed on the mortgage lending portfolio found that the impact of flood risk is not considered significant
Chronic	Alterations in weather patterns affecting subsidence and ground stability which may damage mortgaged property assets	Mortgage lending and development finance	Credit	Long term	**Very low** Appropriate controls are in place, and the longer impact duration offers sufficient time to adapt to changes in risk profiles

ii) Assessment at underwriting

One of our principal tools for managing climate related risk is the assessment made at a loan's underwriting stage. This acts as a key mitigant to the environmental and climate risk factors most likely to have an impact on the business or our customers.

Assessment of current environmental risks and forward-looking climate change risks are factored into our business processes. When assessing the appropriateness of a property as security on a buy-to-let mortgage, factors such as the EPC rating of the property and other climate-related factors are considered. Since 2018 all properties accepted as a security have been required to have a minimum EPC rating of E at the time of offer, unless valid exemptions are in place.

Valuation reports are prepared by surveyors on each property and include an assessment of coastal erosion, ground stability and flood risk based on the surveyor's expert knowledge of the local area, historic events and information from insurers. As part of the conservative approach taken, these risks are assessed on a property-by-property basis. Additionally, it is essential for us to ensure that a property is, and remains, insurable, including for both subsidence and flood risk, providing cover across the mortgage book.

In development finance the initial due diligence considers flood risk, ground instability, local ecology and the impact of current and future regulations. In addition each project has an independent monitoring surveyor assigned throughout the life of the build, part of whose task is to monitor these risks as they emerge, and assess how they are being considered and mitigated by the customer, where material.

iii) Quantifying climate exposure

EPC ratings assess the energy-efficiency of a property and are a key measure of transition risk across the mortgage portfolio. The Credit Committee and the Credit Risk function have an ongoing programme to analyse the potential for any linkage between EPC and loan performance. To date, neither this programme, nor the scenario analysis performed, most recently in 2024, have identified any requirement to adjust current processes or lending criteria. Our EPC data capture process continues to be enhanced to improve our understanding of current exposure, but also for use in longer-term climate scenario analysis.

The Sustainability Committee and the Credit Committee monitor the energy performance of mortgaged properties to ensure that an excessive build-up in concentration of less efficient properties is avoided.

As of 30 September 2024 UK legislation required properties in the PRS to have EPC ratings of E or better, although the incoming administration has indicated its desire to tighten these rules. While the timings and impacts of future public policy initiatives, coupled with changes in market preferences on energy-efficiency, remain highly uncertain, some tightening of standards and increased demand for more energy-efficient properties are both expected in the short to medium term.

At present there is no direct significant or quantifiable link to asset values or impairment attributable to energy-efficiency alone. This is expected to evolve continuously throughout the UK's pathway to net zero by 2050.

Our most recent survey of landlords operating in the buy-to-let sector, for the quarter ended 30 September 2024, showed that around two thirds of those surveyed had at least one property with an EPC grade of D or less. However, 92% had at least some knowledge of government proposals which would require them to upgrade such properties, with 67% claiming they had a detailed understanding. 42% already planned to carry out works to upgrade their properties.

The challenge of decarbonising UK residential real estate and the related risks are shared by all property-based lenders and their customers. We will continue to support the transition, leveraging our strong balance sheet, robust credit standards and long-standing relationships with professional landlords.

(d) Metrics and targets

i) Mortgage Lending

The Mortgage Lending division is focused on first charge buy-to-let mortgages, and also includes limited balances related to legacy owner-occupied first and second charge mortgage books, where no new lending takes place. Energy efficiency (measured by EPC grades) and flood risk are key metrics used to assess climate risk across the mortgage portfolio. Climate analysis to date has been principally targeted on the buy-to-let portfolio.

The tables below summarise the principal exposure metrics for first charge buy-to-let mortgages. While data for England and Wales, which covers 93.2% of all accounts (2023: 92.2%), has been available for some time, during the current year comparable data for exposures in Scotland and Northern Ireland has been sourced, increasing portfolio coverage to 95.4% (2023: 94.2%). 2023 EPC data presented below has been restated on a consistent basis.

The movement in EPC ratings reflects both the underwriting of more energy-efficient loans during the period and the capture of new ratings where an updated EPC has been obtained by the customer.

Indicator	Measure	2024	2023 (restated)
EPC	Grading A or B	**8.8%**	8.3%
	Grading C	**36.6%**	33.5%
	Grading A to C	**45.4%**	41.8%
	Grading D or E	**54.0%**	57.4%
	Grading F or G	**0.6%**	0.8%

We perform an annual flood risk assessment of the mortgage lending portfolio, based on location-specific data covering the whole of the UK. This assessment includes flood risk from rivers, surface water and coastal flooding. Data has been obtained for 97.5% of properties on the mortgage book (2023: 94.0%), summarised below as at the year end.

Indicator	Measure	2024	2023
Flood risk	Very high risk	**0.1%**	0.1%
	High risk	**3.0%**	2.9%
	High or very high risk	**3.1%**	3.0%

These results indicate that only a small balance of the property assets securing mortgages in our portfolio are at higher risk. We have yet to experience any loss attributable to flood or ground instability.

As well as addressing the current flood risk, the annual assessment also includes a projection of the potential future flood risk out to 2080 under various climate scenarios. The analysis was used to evaluate whether there is likely to be any build-up of medium to long term risk if current underwriting processes were to remain unchanged. Although some increase in risk was projected over the period, the findings were considered by internal property and credit risk experts, and the marginal increase was not considered to be substantial.

The proportion of new mortgage lending on properties with EPC grades of A to C increased by 3.5% in the year. The distribution of EPC grades amongst the 99.8% of new buy-to-let mortgages advanced during the year where an EPC was available (2023: 99.9%), is set out below. During the current year EPC data has additionally been sourced for Scotland and Northern Ireland, as noted above and therefore the figures presented this year are for the UK as a whole. Comparative amounts have been restated on the same basis.

Indicator	Measure	2024	2023 (restated)
EPC	Grading A to B	**12.7%**	10.0%
	Grading C	**40.7%**	39.9%
	Grading A to C	**53.4%**	49.9%
	Grading D or E	**46.4%**	50.0%
	Grading A to E	**99.8%**	99.9%
	Grading F or G	**0.2%**	0.1%

New completions continue to have a higher average EPC grade than the total portfolio stock, shifting the overall mix towards more energy-efficient properties, a trend which will continue to be accelerated by the green mortgage range. However, banks focussing their lending on EPC A-C rated properties will not, of itself, deliver the desired changes in the UK housing stock, which currently has an average EPC rating of D.

ii) Commercial Lending

Our Commercial Lending division comprises SME lending, development finance, motor finance and structured lending operations. Within the division the initial focus of climate analysis has been on the SME lending business.

The exposure to carbon-related assets across the SME lending business, which has the widest range of different exposure types has been assessed, while acknowledging that the term 'carbon-related assets' can be subject to a broad range of interpretations.

Limited company customers have been analysed into broad industry groups using SIC (Standard Industrial Classification) codes, with the potential exposure of each industrial sector to increased climate risk then considered. Higher risk sectors were identified as part of our climate risk assessment and discussed with internal industry experts. Although these sectors are identified as having heightened climate-related risks, regular review of industry performance coupled with credit control and other processes leave a low overall residual risk.

This year's assessment additionally identified the 'Wholesale and retail trade; repair of motor vehicles and motorcycles' sector as carbon-related assets and such exposures have been incorporated into the results below, with 2023 data restated on a comparable basis. As part of the same exercise the 'Real estate activities' sector, which had comprised 0.8% of balances in 2023 was reclassified as low impact.

The proportion of our SME lending customers by value operating in these higher risk sectors, is broadly similar to that reported in the previous year, and is set out below:

Sector	Relative climate risk exposure	Residual risk after controls	2024	2023
Construction	Moderately High	Low	**18.3%**	16.7%
Transportation and storage		Low	**12.1%**	13.9%
Mining and quarrying		Low	**1.2%**	1.5%
Administrative and support service activities	Medium	Low	**20.8%**	21.2%
Agriculture, forestry and fishing		Low	**1.9%**	2.3%
Water supply, sewerage, waste management and remediation activities		Low	**2.7%**	3.7%
Manufacturing		Low	**8.6%**	8.7%
Wholesale and retail trade; repair of motor vehicles and motorcycles		Low	**6.4%**	5.8%
Electricity, gas, steam and air conditioning supply		Low	**0.2%**	0.1%
Total increased climate risk exposure			**72.0%**	73.9%

The administrative and support service sector is not typically considered to be one with an increased level of climate risk, however the sector includes activities such as plant hire, and the customers and assets funded in this sector can be closely aligned with the other sectors above that are identified as having increased climate change risk.

Measures addressing other climate risk elements within the Commercial Lending division, such as the environmental impacts of business assets financed and the classification of development finance projects by environmental rating, are under development and continue to evolve.

iii) Integration of climate change within remuneration and culture

The determination of the levels at which PSP awards for executive directors vest include a climate metric. The metric which is subject to annual review, focuses on the development and delivery of the process to manage operational emissions and the financed emissions attributable to lending portfolios. More detail is set out in the Directors' Remuneration Report (Section B7).

Employee engagement on climate change continued in the year, with communication campaigns on sustainability taking place through the business. This programme aims to further embed the consideration of climate change within business-as-usual processes.

Campaigns delivered during the year include "Great Big Green Week", "exploring our strategy" and articles and stories on how individual customers are being supported on their net zero journeys. These update employees on our sustainability strategy and the steps we are taking to reduce our impacts on climate change. The new PPPs rolled out to all employees also encourage sustainable behaviours, with a section dedicated to setting sustainability-related and climate change related objectives.

(e) Financed emissions

Our financed, or downstream, emissions, which are considered as Scope 3 emissions, are those generated by customers which are facilitated by the financing we provide. As set out above, we have committed to reaching net zero by 2050, which will include reducing the financed emissions associated with our lending portfolios, which make up the significant majority of emissions across our value chain.

Strategy in this area will continue to evolve, delivering initiatives and products to drive emission reductions across each of our business areas. There continues to be an external dependency on emissions reductions driven by policy, customer behaviour, and infrastructure and technology developments across the sectors in which we operate.

Absolute financed emissions have been calculated in accordance with the PCAF standard. Under this approach a lender is considered to be responsible for a proportion of emissions relating to assets which they finance based on an 'attribution factor'. The financed emissions reported are based on the customers' Scope 1 and 2 emissions and do not cover any connected Scope 3 (value chain) emissions.

Emissions intensity is a measure of the amount of GHGs which are emitted by a business for each unit of economic or physical activity. Emissions intensities are calculated in accordance with the PCAF standard to provide comparable data. However, this comparability will be compromised by differences in method, data quality and assumptions used by each firm in its financed emissions calculations.

For further details on the methodologies and data used for financed emissions reporting refer to the 2024 basis of reporting available on the sustainability section of our corporate website.

i) Scope 3 financed emissions balance sheet

The financed emissions balance sheet set out below shows emissions related to 85% of assets covered by the PCAF standard by exposure (2023: 89%). Our ambition is to increase this coverage level over time. The order of prioritisation for increasing data coverage is based on the relative size of exposure to each particular lending stream, expected level of emissions, the availability and accuracy of suitable emissions data and the ability to report meaningful year-on-year data.

The principal reasons for the overall decline in coverage recorded in the year are the diversification of liquidity from cash balances, which are not covered by the PCAF Standard, to investment securities which are, combined with the relatively larger growth in the development finance and structured lending portfolios in the year, compared to the lending portfolios for which emissions values have been calculated. We are in the process of developing our methodology to enable us to report on the emissions associated with these additional asset classes.

PCAF Scope 3 financed emissions balance sheet

Business area	Asset type	Balance	Balance with emissions data	Data coverage	Absolute financed emissions[1]	Economic emission intensity[2]	Physical emissions intensity[3]	Physical activity factor	Indicative PCAF data quality score[2]
		£m	£m		kilotonnes CO_2e	tonnes CO_2e per £ million balance	kgCO_2e per physical activity factor		
				30 September 2024					
Mortgages[4]		13,415.7	13,415.7	100%	234.7	17.4	44.7	/m²	3.1
Motor finance[5]	Passenger vehicles and LCVs[6]	225.9	225.9	100%	14.6	65.3	0.3	/mile	2.4
	Leisure vehicles	105.5	Excluded[5]						
SME lending	Motor vehicles[6]	172.1	172.1	100%	57.9	335.5	0.3	/mile	2.9
	Other assets	680.3	Under development[7]						
Development finance		884.0	Under development[8]						
Structured lending		256.9	Under development[9]						
Investment securities		427.4	Under development[10]						
Other assets		3,102.2	Not in scope of financed emissions balance sheet[11]						
Total		**19,270.0**							
				30 September 2023					
Mortgages[4]		12,902.3	12,902.3	100%	257.9	19.9	46.4	/m²	3.1
Motor finance	Passenger vehicles and LCVs[6]	206.1	193.2	94%	13.2	69.1	0.3	/mile	2.6
	Leisure vehicles	91.6	Excluded[5]						
SME lending	Motor vehicles[6]	106.4	106.4	100%	37.8	356.3	0.3	/mile	2.8
	Other assets	651.1	Under development[7]						
Development finance		747.8	Under development[8]						
Structured lending		169.0	Under development[9]						
Investment securities		-	Under development[10]						
Other assets		3,545.9	Not in scope of financed emissions balance sheet[11]						
Total		**18,420.2**							

Notes on calculation methods

1. Absolute financed emissions are attributed to the Group on a loan-to-value basis.
2. Economic emission intensity refers to absolute emissions per pound of lending or investment.
3. Physical emission intensity is a measure of absolute emissions per physical output based on the customer or asset being financed.
4. Emissions related to mortgage assets are calculated using EPC data which has not been altered or updated. Where EPC data is not available, emission intensity is estimated based on property archetypes and data available in the EPC database.
5. Motor finance data currently excludes leisure vehicles (motor homes, caravans and campervans).
6. For lending on passenger and light commercial vehicles in the SME lending and motor finance divisions, the number plates provide accurate scope 1 emissions data when combined with estimated annual mileage. Where no emissions data is available from the DVLA, emissions data is sourced from the PCAF emissions factor database, based on make and model, or the UK Government GHG conversion factors. 2023 amounts only include those vehicle emissions sourced from the DVLA.
7. SME lending also includes the financing of other types of assets, aircraft mortgages, invoice finance, professions finance and unsecured lending under BBB sponsored schemes. Metrics for other loan and asset types in the SME lending portfolio remain under development, due to the complexity in calculating emissions across the wide range of assets financed and the industries in which customers operate. High level estimates are available for exposures relating to heavy goods vehicles and plant, but these rely heavily on assumptions and are subject to change, so have not been adopted.
8. Attribution of financed emissions for the development finance business is complex and while estimates can be made using sector or industry proxies, these rely on a significant number of assumptions which reduce the accuracy and usefulness of the outputs. Metrics for development finance therefore remain under development until improved industry data on the emissions associated with the build phase of construction projects is available.
9. Structured lending remains an area for development. The PCAF standard does not include a methodology to attribute emissions to this form of facility.
10. During the year the investment securities were acquired as part of our liquidity balance. Such assets fall within scope of PCAF, and an appropriate methodology will be developed in due course.
11. Out of scope assets include cash, derivative financial assets, intangible assets, pension surplus and other receivables. Operational property, plant and equipment assets are also out of scope for this purpose. Their attributable emissions are considered under Scopes 1, 2 or 3 in the operational footprint outlined in '(f) operational impacts'.
12. PCAF data quality score has been calculated in accordance with the PCAF guidance. A PCAF score of 1 is considered to be a more accurate estimation of financed emissions, while a PCAF score of 5 is considered to have a much larger margin of error.

(f) Operational impact

Our principal business activity is the provision of mortgage and commercial finance and therefore, in common with other such businesses, the overall direct environmental impact of our operational footprint is considered to be low.

A group company, Specialist Fleet Services ('SFS'), leases refuse collection vehicles to local authorities throughout the UK and undertakes additional aftersales activities that include servicing, maintenance and breakdown support, hence has the most significant potential environmental impacts.

The main environmental impacts of the Group's other operations are limited to those affecting all commercial organisations such as office and resource use, procurement in offices and business travel.

Our operations are not considered to be significantly exposed to the financial risks of climate change materialising from either transitional or physical risks.

i) Policy

We comply with all applicable laws and regulations relating to the environment and include these within our legal compliance framework. Groupwide recycling and awareness campaigns are run with employees to reduce various forms of waste such as food, consumables and energy.

ii) Risk management

The Group Property function, which reports ultimately to the Chief Operating Officer, manages the environmental risks inherent in our operations. The second line Operational Risk team and the ORC monitor compliance within the wider ERMF.

Group Property are responsible for the oversight of all premises occupied by the business and compile information on energy use and waste production. All locations, whether directly owned or tenanted, have their energy data and emissions actively tracked. This is reported at the Sustainability Committee and the Performance ExCo and escalated upwards to the Board.

SFS operates from a number of workshops around the UK and has exposure to several different waste streams (oils, vehicle parts, etc) generated in the normal course of its vehicle maintenance activities. These are effectively managed under an environmental management system that is certificated to an International Standard – ISO14001:2015. A dedicated health and safety manager has direct responsibility for environmental issues at all SFS sites.

We comply with the Energy Savings and Opportunities Scheme ('ESOS'), a UK Government initiative that requires companies to identify and report on their energy consumption. Our most recent ESOS compliance notification was submitted to the Environment Agency in June 2024 and work is in progress to submit our ESOS action plan in December 2024.

iii) Supply chain and procurement

Our principal purchase ledger suppliers comprise our outsourced savings administrator, legal and professional services providers, building lessors and IT service providers. They are therefore exposed to similar operational environmental risks to those of the Group.

We remain committed to identifying, targeting and addressing inefficiencies within our supply chain and work with key suppliers to identify solutions to reduce the environmental impacts of our business activities, whether direct or indirect.

The due diligence and onboarding process for new suppliers was updated in the year, with a new IT solution rolled out. This enables the consideration of sustainability and environmental factors as part of the supplier approval process. In developing the new process we considered the results and responses from the sustainability survey sent to Group Property suppliers during 2023, and critical suppliers across the business in the current year.

All pre-printed stationery items used in the business are from renewable sources certified by FSC.

95.1% (2023: 92.1%) of the electricity directly purchased in the year was obtained from sources certified as renewable by the Office of Gas and Electricity Markets ('OFGEM').

iv) Environmental initiatives

Environmental initiatives undertaken in the period include:

- Continuing to balance our approach to net zero with our workspace needs. During the year, our Solihull premises were consolidated, following changes to our working arrangements over recent years and building renovations. This reduction in our physical footprint has allowed us to reduce our operational emissions
- Installing an additional 12 electric vehicle charging points at our Solihull offices, bringing the total to 24
- Further improvements to the energy efficiency of the Head Office, with wireless networks and outdoor lighting upgraded in the year, delivering further efficiencies
- Following the relocation of IT server equipment, a programme to decommission cooling units in our IT server rooms has begun, reducing electricity consumption and coolant evaporation
- The roll-out of electric and hybrid vehicles across our company car fleet, supported by better quality emissions factor data, has also significantly contributed to the reductions. At 30 September 2024, 24% of all company cars were electric-only
- Our green car salary sacrifice scheme continues to support increased take-up of electric vehicles amongst employees, reducing the emissions impact of commuting

v) Performance indicators

Our environmental key performance indicators have been determined having regard to the Reporting Guidelines published by the Department of Business, Energy and Industrial Strategy ('BEIS') and the Department for Environment, Food and Rural Affairs ('DEFRA') in March 2019, and are set out below.

We do not consider that we have significant direct environmental impacts or risks under the headings 'Resource Efficiency and Materials', 'Emissions to Land, Air and Water' or 'Biodiversity and Ecosystem Services' set out in the Guidelines, due to the nature of our business activities.

This information is presented for the twelve months ended 30 September in each year and includes all entities consolidated in the financial statements. Normalised data is based on total operating income of £496.4 million (2023: £466.0 million).

In 2022 we designated 2019 as the operational footprint baseline against which we measure progress on carbon reduction, and data for this year is presented below.

Operational footprint greenhouse gas ('GHG') emissions

	2024	2023	2019 Baseline
	Tonnes CO_2e	Tonnes CO_2e	Tonnes CO_2e
Scope 1 (Direct emissions)			
Combustion of fuel:			
Operation of gas heating boilers	**468**	504	520
Petrol and diesel used by company cars	**323**	450	465
Operation of facilities:			
Air conditioning systems	**27**	22	24
	818	976	1,009
Scope 2 (Energy indirect emissions)			
Electricity consumption *(Location-based)*	**475**	524	995
Electricity consumption (Market-based)	***70***	*62*	*990*
Total scopes 1 and 2 *(Location-based)*	**1,293**	1,500	2,004
Total scopes 1 and 2 (Market-based)	***888***	*1,038*	*1,999*
Normalised tonnes - Scope 1 and 2 CO_2e per £m income *(Location-based)*	**2.6**	3.2	6.6
Normalised tonnes - Scope 1 and 2 CO_2e per £m income (Market-based)	***1.8***	*2.2*	*6.7*
Scope 3 (Other indirect emissions)			
Fuel and energy related activities not included in scope 1 or 2	**421**	433	520
Water consumption	**3**	4	14
Waste generated in operations	**44**	50	88
Total scope 3	**468**	487	622
Total scopes 1, 2 and 3 *(Location-based)*	**1,761**	1,987	2,626
Total scopes 1, 2 and 3 (Market-based)	***1,356***	*1,525*	*2,621*
Normalised tonnes Scope 1,2 and 3 CO_2e per £m income *(Location-based)*	**3.5**	4.3	8.8
Normalised tonnes Scope 1,2 and 3 CO_2e per £m income (Market-based)	***2.7***	*3.3*	*8.8*

The amounts shown above for location-based total Scope 1 and Scope 2 emissions are those required to be reported under the Companies Act (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. All these emissions relate to activities in the UK and its offshore area.

CO_2 equivalent ('CO_2e') values above, other than for market-based Scope 2 elements, are calculated using the UK Government GHG Conversion Factors for Company Reporting published on 8 July 2024. Market-based emissions have been calculated in accordance with GHG Protocol guidelines.

The market-based method for calculating emissions relating to electricity use reflects the specific source of the electricity purchased and derives emission factors from information provided by suppliers and related data, where such data is available. This differs from the location-based method, which reflects average emissions for electricity supplied through the UK grid, based on figures published by the UK Government. Where our available data does not meet the Scope 2 Quality criteria the emissions are estimated utilising the UK grid conversion factor. The methodology is detailed in the Basis of Reporting, as noted above.

The majority of emissions reported relate to the provision of heat, light and power to offices and other operational premises. Emissions attributable to employees working from home are not, at present, included within the scope of the regulations.

GHG emissions reduction target

Our target is to achieve net zero across our operational footprint by 2030.

- Operational footprint is defined as Scope 1 (direct) emissions, Scope 2 (indirect energy) emissions and those Scope 3 (other) emissions related to power, waste, water and business travel. It therefore excludes downstream or other upstream emissions from our value chain
- Net zero is defined as a reduction in these market-based emissions to zero, or to a residual level consistent with reaching net zero emissions at the global or sector level in eligible 1.5°C aligned pathways with any residual emissions being neutralised by removal offsets

To date, a 48% reduction in market-based emissions compared to the 2019 baseline has been achieved (2023: 42%). This reduction continues to be principally driven by the shift to hybrid working. Further reductions in both location and market-based emissions compared to 2023 reflect the electrification of the company car fleet and the reduction in gas use following the centralisation of our Solihull operations in one building. Although the electrification of the fleet has reduced emissions overall, it has increased scope 2 emissions with travel-related emissions moving from scope 1 to scope 2 as fuel is no longer directly consumed.

Our aim is to deliver our net zero operational footprint commitment through the decarbonisation of heating across our offices and other sites, the electrification of business travel, switching to low-carbon green electricity where possible, and the reduction and recycling of waste across all our locations. It cannot be expected that progress towards net zero emissions will be smooth, nor that significant reductions can be delivered every year. Emissions reductions will result from the delivery of specific initiatives, rather than gradually, although they should also be reduced by the wider roll out of low-carbon infrastructure and technology across the UK.

Carbon offsetting

The emissions attributable to our operational footprint for the year ended 30 September 2024, set out in the table above, have been offset. Offsetting has been achieved through the purchase, after the year end, of carbon credits certified under the Gold Standard, one of the most widely accepted international certification systems. Emissions for the preceding year ended 30 September 2023 were offset following the end of that year in a similar way.

Offsetting is not regarded as a long-term solution for operational emissions, and our offsetting commitment is supported by an ambition to achieve net zero across these emissions by 2030, without their use. We see responsible involvement in the voluntary carbon market as a crucial step to driving internal investment and change, with offsetting the operational footprint formulating a carbon price which can be used to support decision-making and investment into internal emission reductions.

Assurance

The emissions data set out in the table above has been independently verified. The limited verification procedures provide an appropriate level of assurance that the emissions produced have been offset, with the level of assurance having been considered and approved by the Audit Committee.

The verification was undertaken by EcoAct, an independent carbon management company, and was aligned with the ISO 14064-3: 2019 Standard with specification and guidance for the verification and validation of greenhouse gas statements.

The EcoAct opinion stated that nothing had come to their attention which indicated that the location-based and market-based emissions totals set out above were not fairly stated and free from material error.

Compliance with environmental laws and regulations

The Group has not been involved in any prosecutions, accidents or similar non-compliances in respect of environmental matters, nor incurred any fines in respect of such matters.

Power usage

Mains electricity and natural gas from the UK grid is used to provide heat, light and power to our office buildings and other premises, with a proportion of this power certified as renewable by suppliers. Energy is also consumed in powering company vehicles, which is included in Scope 1 and 2 above, and through business travel of employees, which is included in Scope 3. The amount of power used in the year ended 30 September 2024 is shown below.

	2024	2023	2019 Baseline
	MWh	MWh	MWh
Renewable electricity	**2,106.8**	2,330.0	3,123.5
Other electricity	**199.1**	200.7	768.1
Electricity	**2,305.9**	2,530.7	3,891.6
Natural gas	**2,560.6**	2,754.9	2,817.1
Motor fuel	**1,636.1**	2,118.9	2,303.7
Total	**6,502.6**	7,404.5	9,012.4
Normalised MWh per £m income	**13.1**	15.9	30.3

Consumption levels have seen a general decrease from 2023 linked to reduced electricity consumption following the delivery of energy savings measures at our principal Solihull office and the centralisation of Solihull-based employees there. Reported motor fuel consumption has decreased, due to improved data quality that enables more precise categorisation by fuel type. The electrification of the fleet has shifted power consumption for business travel from 'Motor fuel' to 'Other electricity' but total power usage remained lower during the period.

Gas and electricity usage are based on consumption recorded on purchase invoices. Vehicle usage is based upon expense claims and recorded mileage. Energy is classified as renewable based on OFGEM accreditation received from the suppliers. In addition, our London office purchased gas through the Green Gas Certification Scheme ('GGCS') meaning it has lower carbon emissions and supports the greening of the UK gas network.

Water usage

Water usage is limited to the consumption of piped water in the UK and no water is extracted directly. Water usage in the year ended 30 September 2024 was 7,910m^3 (2023: 10,002m^3), based on consumption recorded on purchase invoices. Normalised consumption was 15.9m^3 per £m income (2023: 21.5m^3 per £m income). Water usage has decreased due to a combination of consolidating office space and reducing consumption in our office buildings. Office occupancy levels under the hybrid working approach remain largely similar year-on-year.

Waste

SFS is the most significant producer of waste amongst our businesses. Its vehicle servicing activities generate a variety of different waste streams – including various grades of oil and a range of metals and plastics. These wastes are managed responsibly in accordance with an ISO14001:2015 certificated management system. Waste streams generated by SFS are disposed of in accordance with the waste hierarchy before being consigned to approved waste transfer stations under contract and Waste Transfer Notes obtained.

Waste output excluding SFS consists of a mixture of general office waste types, principally paper and cardboard with some wood, plastic and metals. Facilities are provided in our offices for recycling paper, cardboard, newspapers, glass, plastics and aluminium and steel cans. Batteries, and printer and photocopier cartridges are collected and sent for recycling. The largest part of our recycled outputs relates to waste paper.

Since June 2023 we have partnered with a specialist waste solution provider, to further segregate waste streams and maximise recycling opportunities. The collection of better-quality data on waste generation also means that internal recycling campaigns can be better targeted. All waste is either recycled, used in waste-to-energy initiatives or sent to landfill.

Amounts of waste generated in the year ended 30 September 2024 together with the methods of disposal are shown below.

	2024	2023	2019 Baseline
	Tonnes	Tonnes	Tonnes
Recycled	**151**	44	122
Recovery through Waste-to-Energy Initiatives	**45**	37	-
Landfill	**85**	95	187
	281	176	309
Normalised tonnes per £m income	**0.57**	0.38	0.75

Waste generation data is based upon volumes reported on disposal invoices.

Our long-term aim is to increase the proportion of waste which is diverted from landfills, prioritising recycling over recovery initiatives. Total waste increased compared to 2023, mainly due to the clearing of office space as part of office consolidation in the period, but remains lower than the 2019 Baseline. The amount of waste being sent to landfill has continued to reduce.

Travel and commuting

Our company car policy supports our efforts to decarbonise. It targets the elimination of diesel and petrol-only vehicles from the fleet by 31 December 2025 and to meet this objective the following steps have been agreed:

- No diesel or petrol vehicles have been ordered on a permanent basis since January 2022
- CO_2 emissions for fleet vehicles have been restricted to 75g/km with annual reviews set each April to ensure continuing alignment with the objectives
- New orders will be restricted to electric-only vehicles from 1 October 2026, subject to the progress of the UK Government's decarbonisation plan and the availability of suitable vehicles
- All non-electric cars will be removed from the company car fleet by 30 September 2031

At 30 September 2024 only 5% of our company car fleet was petrol or diesel (2023: 20%), with 24% electric-only (2023: 16%).

We continue to expand the number of EV charging points available to employees. Our aim is to reduce emissions from commuting and business travel by employees. Other initiatives include our green car and cycle-to-work schemes, offering employees a tax-efficient way to purchase an electric or plug-in hybrid vehicle or a new bicycle via salary sacrifice arrangements.

(g) Future developments

Activities in our climate change programme going forward also include:

- Refurbishment and decarbonisation of our Solihull head office
- Expansion of the financed emissions balance sheet to fully cover Commercial Lending balances
- Development of our internal resources for understanding and reporting of financed emissions and portfolio decarbonisation pathways
- Education and engagement with SME customers through our newly appointed Green Champions
- Continuing to work towards reducing the operational footprint to net zero by 2030
- Further engaging and promoting positive sustainable public policy across industry and government, through membership of B4NZ and other industry bodies

i) Emissions across the value chain

There are significant challenges in data collection and accurate calculation for Scope 3 emissions, however we are committed to disclosing downstream Scope 3 emissions where significant and relevant to our stakeholders, and where the data is sufficiently mature to form a reliable basis for analysis and decision making. Although industry-wide emissions data continues to improve, the timelines for delivering decision-useful emissions data remain uncertain.

The table below outlines the key emissions from all scopes across the value chain and their current reporting status. During the year we updated our approach for categorising operating leases in our SME lending business. Due to the similarity between the types of assets funded in that business under finance leases and operating leases, emissions attributable to operating leases will be considered within the financed emissions balance sheet.

To date our emissions reporting has focussed on the operational footprint, where good progress has been made on emissions reductions, and financed emissions, which are the most significant emissions across our value chain. During the year the financed emissions balance sheet was enhanced, now covering a greater proportion of motor finance exposures, where data was not previously available. We continue to work towards expanding the emissions sources we are able to report on.

<table>
<tr><th>Scope</th><th>Emissions source</th><th>Significance of emissions</th><th>Approach</th><th>Commitments</th></tr>
<tr><td>Scope 1</td><td>Combustion of fossil fuels and the evaporation of coolants in owned or controlled assets</td><td>Very Low</td><td>Included within ‘(f) Operational impact’</td><td rowspan="5">Offset from 2022

Commitment to net zero by 2030</td></tr>
<tr><td>Scope 2</td><td>Purchased electricity, heat and steam</td><td>Very Low</td><td>Included within ‘(f) Operational impact’</td></tr>
<tr><td rowspan="3">Scope 3</td><td>Fuel and energy related activities not in Scope 1 or 2</td><td rowspan="3">Very Low</td><td rowspan="3">Included within ‘(f) Operational impact’</td></tr>
<tr><td>Waste generated in operations</td></tr>
<tr><td>Water consumption</td></tr>
<tr><td>Scope 3</td><td>Working from home emissions and employee commuting</td><td>Very Low</td><td>Under development</td><td rowspan="4">In support of the UK Government goal of net zero by 2050 the Group has made a commitment to achieve net zero by 2050</td></tr>
<tr><td>Scope 3</td><td>Supply chain emissions</td><td>Low</td><td>Under development</td></tr>
<tr><td>Scope 3</td><td>Financed emissions – Mortgages</td><td>High</td><td>Reported in ‘(e) Financed emissions’</td></tr>
<tr><td>Scope 3</td><td>Financed emissions – Commercial Lending</td><td>Very High</td><td>Under development but partially reported in ‘(e) Financed emissions’</td></tr>
</table>

(h) TCFD reporting

UK Listing Rule UKLR 6.6.6(8) requires the Group to disclose whether it has included climate-related financial disclosures consistent with the TCFD recommendations and explain any areas of non-consistency. The climate-related disclosures set out above are consistent with the recommendations of the TCFD and the expectations set out in the Listing Rules. The TCFD framework provides guidance (using a principles-based framework) for companies to use for disclosure on climate-related risks and opportunities.

In preparing the disclosures set out above, consideration has been given to the 2021 TCFD Implementing Guidance and the Supplemental Guidance for Banks, the FRC 2023 and 2024 Thematic Review of climate-related disclosures and the FCA Review of TCFD-aligned disclosures by premium listed companies. The disclosures articulate the current status of our climate-related activities and highlight those areas for future development, at an appropriate level to enable users to assess our exposure to, and approach to addressing, climate-related risks and opportunities.

The following table sets out the sections of this part of the annual report in which material relevant to each TCFD pillar may be found.

	Governance	**Relevant section**
	Disclose the organisation's governance around climate-related risks and opportunities	
a.	Describe the board's oversight of climate-related risks and opportunities.	(a) ii) and iii)
b.	Describe management's role in assessing and managing climate-related risks and opportunities.	(a) i), ii) and iii)
	Strategy	
	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	
a.	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	(b) i) and ii) (c) i)
b.	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	(b) i) and ii) (f) iii) and iv)
c.	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	(b) ii) (g)
	Risk management	
	Disclose how the organisation identifies, assesses, and manages climate-related risks	
a.	Describe the organisation's processes for identifying and assessing climate-related risks.	(a) i) and iii) (b) ii)
b.	Describe the organisation's processes for managing climate-related risks.	(b) i) (c) ii) and iii) (d) i) and ii)
c.	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	(a) i) and iii) (c) ii) and iii)
	Metrics and targets	
	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	
a.	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	(b) ii) (c) iii) (d) i), ii) and iii)
b.	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.	(e) i) (f) v) (g) i)
c.	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	(b) i) (f) v)

A6.5 Social and community

We operate entirely within the United Kingdom and therefore within the legal and regulatory framework of the UK, but we also acknowledge the importance of corporate responsibility and citizenship, striving to go beyond what is required in relationships with customers, the wider community and other stakeholders.

We are a specialist lender, providing funding for business propositions in the development finance and SME lending markets which might struggle to attract interest from larger lenders, helping to support the SMEs which are crucial to the UK economy. We also support the provision of housing in the UK through buy-to-let lending to the PRS.

Where possible, we use our lending relationships to promote good practice amongst our customers. The buy-to-let mortgage division requires minimum standards from its landlord customers in the properties we fund, helping to drive up standards in the PRS for tenants and potential tenants.

As described in Section A6.4, we have products structured to encourage customers to reduce their environmental impacts, helping to drive action on climate change, and we continue to develop our offerings in these areas, recognising the challenges some of our customer groups face in progressing towards net zero.

We also actively engage with industry and other external bodies, particularly those focussed on climate change and diversity to ensure best practice within the organisation. Details of some of these initiatives are given in the people and environmental impact sections of this report (Sections A6.3 and A6.4).

Industry initiatives

Through our activity with trade organisations in the UK, we are helping to formulate public policy and share experience on best practice to drive forward better financial provision. We have been particularly active in initiatives to enable the PRS to serve the UK housing market more effectively.

We also regularly engage directly with Government to help inform departments on how market trends are impacting landlords, their sentiment and behaviours. Nigel Terrington, our CEO, is a member of HM Treasury's Home Finance Forum and during the year we have been represented on the Bank of England Residential Property Forum, both of which provide input to policy at the highest levels. The Group's senior management have also given evidence to UK and Welsh parliamentary committees during the year.

Membership of bodies such as UKF and the FLA enables us to be part of shaping the future provision of financial services to the benefit of the whole community. We play an active role in these bodies, with representatives on working groups covering a range of topics. John Phillipou, the Managing Director of our SME lending operation, currently serves as Chair of the FLA, while Louisa Sedgwick, Managing Director – Mortgage Lending is currently a Deputy Chair of the Intermediary Mortgage Lenders Association.

Our Mortgage Lending business continues to work with a number of industry and government initiatives on climate change in the property sector. This has included work carried out in conjunction with the Green Finance Institute, on the potential for providing green products to the buy-to-let mortgage market. The business has also worked with the Coalition for Energy Efficient Buildings formed by the Institute.

Through the Better Hiring Institute, our Chief People Officer, Anne Barnett, has worked with the All-Party Parliamentary Group on Modernising Employment, enhancing parliamentarians knowledge of employment issues, with reform in this area a primary focus of the new UK Government.

As part of the development of our sustainability strategy we are a member of the Bankers for Net Zero initiative, which continues to support UK industry in mobilising SMEs to take action on climate change while providing input to the shaping of policy at a national level.

We have also been active in industry diversity initiatives and are represented in the Women in Property initiative.

Supporting charity

As part of our commitment to corporate citizenship we support charity initiatives, both by making direct donations and also by supporting the fundraising activities of the employee-led Paragon Charity Committee. A designated member of our executive committees, Deborah Bateman, the External Relations Director and Chair of the Sustainability Committee, oversees strategy in this area.

For direct donations, we focus on supporting organisations serving the communities in which we operate, as well as the fundraising efforts of individual employees. We also operate a Give-As-You-Earn Scheme through payroll. Contributions made in the year across these initiatives totalled £42,000 (2023: £56,000).

Charities which benefitted from donations included Down's Syndrome Association, Sunny Days Children's Fund, Lupus UK, The Superhero Series, Myton Hospice and Brent Lodge Wildlife Hospital, as well as many local sports clubs and community groups. During Pride month we encouraged fundraising for LGBTQ+ affiliated charities with one of the beneficiaries being Birmingham LGBT.

Our Charity Committee consists of employees who give up their own time to organise a variety of fundraising activities throughout the year, with support from the business. All employees are given the opportunity to nominate a 'Charity of the Year' for each financial year, and a vote is carried out amongst employees to select the charity to benefit from the year's fundraising activities.

During the year ended 30 September 2024, £49,000 was raised for Molly Ollys, which supports children with life-threatening illnesses and their families, helping with their emotional wellbeing. The chosen charity for the year ending 30 September 2025 is Guide Dogs, with a new year of fundraising already under way and more events being planned across our locations.

Community volunteering

We are involved in a number of initiatives within our local communities, both on a corporate level and through our employees volunteering programmes.

Employees are encouraged to undertake at least one paid volunteering session each year as part of our sustainability strategy. As a specialist lender, we are conscious of the potential impact our operations may have on society and the environment. Therefore, community volunteering opportunities have focussed on supporting people experiencing poverty, providing educational opportunities for children and young people and improving the local environment. These have included initiatives building on long-standing relationships with charities and schools.

Engagement in the volunteering programme across all our locations has remained stable this year, with the number of volunteer days completed in the financial year totalling 460 (2023: 469).

Some examples of community projects supported are highlighted below.

People experiencing poverty

SIFA Fireside based in central Birmingham provides a range of ever-evolving responsive services to ensure the essential needs of Birmingham's homeless communities are met. This year eight employees volunteered their services to help prepare food at the drop-in centre and lend a friendly ear to their clients.

St Basils is a charity which works with people aged 16 to 25 who are homeless or at risk of homelessness, helping almost 4,000 young people per year across the West Midlands region. 20 of our people worked on crafting projects aimed at helping to engage individuals who are in the charity's care.

Foodbanks – 14 employees volunteered their time across the UK, including in Hedge End, Poole, Bedworth and Birmingham.

For Christmas 2023, employees again donated food and luxury items to Christians Against Poverty, in what has become a festive tradition. 50 hampers were donated to families in need across the West Midlands.

Educational opportunities

Working with schools. In total 61 employees supported careers fairs and work experience events, including interview skills preparation. We worked with schools and colleges local to our Solihull head office, including Tudor Grange Academy, Alderbrook School and Solihull Sixth Form College, whilst supporting schools across the West Midlands, including Colmers School, Starbank Academy and Small Heath Academy, with activities ranging from careers days, financial literacy skills sessions, workshops and mentoring sessions.

Support has also been provided to help improve the outdoor wildlife areas for Heronswood Primary School and Evergreen School.

Enhancing employability. Our strategy focused on bridging the gap between education and employment, with a focus on supporting young people from under-represented groups. From March 2024 this included a new partnership with Future First, a charity which aims to improve social mobility in the UK. Our input centred on working with King Edward VI Sheldon Heath Academy in Birmingham, creating opportunities for 26 mixed-ability year 10 students to attend an insights day to understand pathways into careers and success.

During the year we also participated in the Smart Futures Programme for Year 12 students from low-income backgrounds. This included providing work experience, mentoring and interactive training, helping the students to gain useful skills for future employment.

These initiatives are intended to break down barriers which might unfairly exclude young people from Black, Asian and ethnic minority groups, as well as those young people from lower socio-economic backgrounds or those with additional needs.

In addition, as part of a new 'Community Parenting' partnership we supported care-experienced young people by hosting insight sessions and donating laptops.

Environmental benefits

The Canal and River Trust care for the UK's network of canals, rivers and reservoirs. Their vision is to have living waterways that transform places, enrich lives and bring wellbeing opportunities to millions. 21 employees completed clear-up projects on sections of waterways during the year.

Thrive uses gardening to bring about positive changes in the lives of people living with disabilities or ill health, or who are isolated, disadvantaged or vulnerable. This year 12 of our London-based people worked on a gardening project at Battersea Park.

Newlife undertakes de-labelling activities to recycle clothing, allowing them to sell items in their stores. Clothing recycling prevents items from going to landfill where they contribute to pollution. In total, 29 employees volunteered at the Newlife warehouse in Cannock.

EcoBirmingham is a charity with a mission to give the people of Birmingham the tools they need to take positive environmental action and live more sustainable lives. They are our newest volunteering partner and during the year more than 30 employees supported their work, taking part in cleaning, weeding and planting tasks in the EcoBirmingham community garden.

There were also multiple gardening and general cleaning projects, including with the Solihull MIND Horticultural Project and Longdown Dairy Farm.

Other projects

Other projects supported include the Royal Star and Garter, which provides care to veterans and their partners living with disability or dementia and Sophie's Legacy which provides end-of-life support to young children and their families. 51 employees volunteered at Wythall Animal Sanctuary which cares for sick, injured or orphaned wildlife. 19 employees also volunteered their time to support Rowan's Hospice in Portsmouth and St Richard's Hospice in Worcester.

Taxation policy and payments

Materially all our taxable income arises in the UK and therefore we have no presence in jurisdictions considered to enable tax base erosion and profit shifting.

Our tax strategy is to comply with all relevant tax obligations whilst co-operating fully with the tax authorities. We recognise that in generating profits which can be distributed to shareholders the business benefits from resources provided by government and the payment of tax is a contribution towards the cost of those resources. We will only undertake such tax planning as supports commercial activities and, in the UK context, is not contrary to the intention of Parliament.

As a group containing a bank, we are subject to The Code of Practice on Taxation for Banks (the 'Bank Tax Code') published by His Majesty's Revenue and Customs ('HMRC') in March 2013. We have previously confirmed to HMRC that we are unconditionally committed to complying with the Bank Tax Code, and formally re-approved the tax governance policies and the tax strategy outlined above.

During each financial year since 2018 a tax strategy document for that period, approved by the Board of Directors, has been published on the Group's corporate website, in accordance with the Finance Act 2016. These documents address the following matters:

- our approach to risk management and governance arrangements in relation to UK taxation
- our attitude towards tax planning (so far as affecting UK taxation)
- the level of risk in relation to UK taxation that we are prepared to accept
- our approach towards our dealings with HMRC

The most recent such statement was published during the year and can be found in the Investor Relations section of the website in 'Results, Reports and Presentations'.

The published tax strategy is owned by the Board collectively in accordance with HMRC's published expectations. The CFO has been designated as the Senior Accounting Officer for tax purposes and, as such, reviews compliance with our policies each year and certifies the appropriateness of our tax accounting arrangements to HMRC.

We have an open and positive relationship with HMRC, meeting with their representatives on a regular basis, and are committed to full disclosure and transparency in all matters.

The Group is resident and operates in the UK and generates revenues for the UK authorities both through corporation tax and other taxes directly borne, but also through substantial payroll taxes.

Taxes borne directly include UK corporation tax on profits, including the Banking Surcharge, and payroll-based taxes, including employers National Insurance ('NI') contributions and Apprenticeship Levy payments. In addition, as a financial institution, we are unable to recover the majority of the VAT charged by suppliers and this represents a cost of doing business.

Taxes collected on behalf of HMRC include payroll deductions from our employees, in the form of PAYE and employees NI contributions and VAT relating to certain income from customers.

The amounts borne and collected during the period were as follows.

	2024	2024	2023	2023
	£m	£m	£m	£m
Taxes borne directly				
UK Taxation				
Corporation tax	**70.2**		75.1	
Employers' payroll taxes	**12.2**		11.6	
Irrecoverable VAT and other indirect taxes	**6.7**		7.4	
Stamp duty	-		0.6	
Total UK national taxation		**89.1**		94.7
Local taxation				
Business rates		**1.8**		1.4
		90.9		96.1
Taxes collected				
Employees' payroll taxes	**30.7**		28.7	
VAT	**0.4**		0.3	
		31.1		29.0
		122.0		125.1

Overall, the tax borne and that collected on behalf of the UK Government demonstrates the economic activity of our business, its contribution to the UK economy and state, and the value added to society more broadly.

A6.6 Human rights

We respect all human rights in conducting our business, and regard those rights relating to non-discrimination, fair treatment and respect for privacy to be the most relevant and to have the greatest potential impact on our key stakeholder groups: customers, employees and suppliers. These principles are embedded in our culture and reflected in our Code of Conduct.

Our commitment to supporting our people's employment rights is described in Section A6.3.

We conduct business exclusively in the UK and, as such, are subject to the UK Human Rights Act 1998, which incorporates the European Convention on Human Rights into UK law. There are systems in place to ensure our policies and procedures are compatible with all legal requirements applicable to us and to identify any new or emerging requirements.

The Board and the CEO have overall responsibility for ensuring that all areas within the business uphold and promote respect for human rights. We seek to anticipate, prevent and mitigate any potential negative human rights impacts as well as enhance positive impacts through policies and procedures and, in particular, through our policies regarding employment, equality and diversity, application of the FCA Consumer Duty, treating customers fairly and information security.

Our policies seek to ensure that employees and business partners comply with the relevant UK legislation and regulations and to promote good practice. These policies are formulated and kept up-to-date by the relevant business areas, authorised in accordance with governance procedures and are communicated to all employees.

Compliance with human rights regulation falls within our overall compliance regime, and any breaches or potential breaches would be investigated and addressed through the risk management framework and, if appropriate, our disciplinary procedures.

We comply with and support the objective of the Modern Slavery Act 2015, in raising awareness of modern slavery and human trafficking.

We are committed to ensuring there is no modern slavery or human trafficking in our supply chains or in any part of the business, and to acting ethically and with integrity in all business relationships. We actively engage with suppliers to ensure compliance with Modern Slavery legislation is achieved. This commitment is reflected in our policies and the Supplier Code of Conduct.

An annual Modern Slavery and Human Trafficking Statement is published for the Group, describing our policies for achieving this commitment. This can be found on our corporate website: www.paragonbankinggroup.co.uk.

Extensive monitoring of the implementation of all these policies is undertaken and we are not aware of any incident in which the organisation's activities resulted in an abuse of human rights or a breach of Modern Slavery legislation. No fines or prosecutions in respect of non-compliance with human rights legislation, including Modern Slavery legislation, have been incurred in the financial year (2023: none).

A6.7 Business practices

Our approach to doing business is set out in our Code of Conduct, which draws together a framework of detailed policies. All employees are expected to read and attest to the code on an annual basis, and we provide training to ensure the code is fully understood.

The code covers obligations to colleagues and customers and compliance with the legal, regulatory and ethical aspects of the way people discharge their individual roles within the organisation. The Code of Conduct is publicly available on our corporate website at www.paragonbankinggroup.co.uk.

Business partners

Our business model relies on maintaining good relationships with our principal business partners, primarily financial intermediaries, such as mortgage brokers, and purchase ledger suppliers, including those for establishment costs and professional services.

A commitment to the fair treatment of all suppliers is central to our approach. In return, we expect suppliers to help deliver a high standard of service to our customers and act responsibly.

Our Supplier Code of Conduct sets out our overall approach to supplier engagement and corporate responsibility and, importantly, the standards of behaviour expected from suppliers. The code is available on our website (www.paragonbankinggroup.co.uk).

We place great importance on positive supplier relationships, both with intermediaries and with our suppliers of goods and services. Major suppliers have strong relationships with the relevant areas of the business, but we also recognise the importance of smaller providers.

In 2023 we conducted a survey of principal suppliers, to gather information on sustainability matters such as employment practices, environmental impacts and procedures to ensure compliance with laws and regulations, to ensure these aligned with our expectations and values. Our purchasing process now collects this data as part of the due diligence process at onboarding for significant suppliers, and it is intended that data held is validated from time-to-time on a continuing basis.

The Supplier Code of Conduct also includes our conduct commitments and our expectations of business partners in relation to bribery and corruption, data protection and modern slavery. It contains important information concerning employment practices, approach to health and safety, community matters and environmental policies.

The only significant outsourcing arrangements used in the year relate to:

- the administration of savings operations by the outsourcing arm of a major UK building society
- third-party ('cloud-based') hosting of IT systems by a leading supplier
- provision of IT systems for payment processing by a leading business in this field
- provision of the hosted administration platform for our invoice finance business by an industry specialist

All these activities take place within the UK and all data remains onshore.

When outsourcing activities, we retain responsibility for those services and the associated risks. We remain focused on meeting regulatory requirements under the PRA Supervisory Statement on Outsourcing and Third Party Risk Management (SS2/21) which, inter alia, incorporates the European Banking Authority's Guidelines on outsourcing into UK regulation. Our alignment with these requirements strengthens resilience throughout the supply chain.

Our aim is to pay all our suppliers within 30 days of receiving a valid invoice, where correct procedures are followed, and we actively engage with suppliers if issues arise. To support suppliers in avoiding such issues, invoicing guidance is published on our website.

We are a signatory to the UK's Prompt Payment Code ('PPC'), administered by the Office of the Small Business Commissioner and as such commit to paying invoices within 60 days, unless there is good reason for non-payment. The PPC also aims to ensure all invoices from suppliers it defines as small businesses are paid within 30 days unless under query.

Our central administration company, Paragon Finance PLC, reports its payment performance semi-annually under the 'Reporting on Payment Practices and Performance Regulations 2017'. Data for the six-month reporting periods ended 30 September in the three most recent years, calculated on the basis set out in the regulations, is shown below.

	Six months ended 30 September		
	2024	2023	2022
Average time to pay invoices (days)	**22**	21	22
Invoices paid within 60 days	**95%**	94%	94%

Sensitive business sectors

As a matter of credit policy, we do not lend in the following controversial business sectors which pose a potential reputational and financial risk to the business:

- Public houses and bars
- Licensed clubs
- Adult entertainment businesses
- Gambling and betting activities
- Political organisations
- Manufacturers of weapons and ammunition

This list is kept under review as part of our sustainability strategy.

Anti-corruption

We carry out business fairly, honestly and openly. Our comprehensive anti-bribery and anti-corruption policy, endorsed by the directors, forms part of our Code of Conduct. These policies cover all employees and are operated throughout the business. We will not make or accept bribes, nor will we condone the offering or receiving of bribes on our behalf. We will always avoid doing business with those who do not accept our values and who may harm the reputation of our businesses.

An annual bribery risk assessment is carried out, as required by the Bribery Act 2010 and continues to conclude that the Group is not a company with a high risk of bribery. We conduct all our business within the UK and all significant outsourced operations also take place within the country. The UK is not considered a jurisdiction with a high incidence of corrupt practices, ranking twentieth safest out of 180 countries and territories in the Corruption Perceptions Index for 2023, the most recent to be published. However, we take our responsibilities seriously and do not tolerate bribery in any form, on any scale and therefore keep policies and procedures under regular review. We have committed to self-reporting any identified serious incident of bribery or corruption.

Group policies cover the conduct of our business, interaction with suppliers and contractors and the giving or receiving of gifts and corporate hospitality. They prohibit facilitation payments. Before new suppliers are approved, our procedures require that they must be assessed against our anti-bribery and corruption policy standard, which is a key document within our suite of risk policies. This policy standard is updated, and a risk assessment conducted, on an annual basis.

All employees are required to read the anti-bribery and corruption policy standard and undertake annual on-line training to assess their understanding. The anti-bribery culture forms part of the induction course for all new employees and is reinforced at subsequent training sessions. Any employee found to be in breach of these policies will be subject to disciplinary action. No such disciplinary action has taken place in the year ended 30 September 2024.

The Head of Financial Crime Risk, who also holds the Money Laundering Reporting Officer ('MLRO') responsibility for the Group, is responsible for ensuring the Bribery Act risk assessment and resulting policies and procedures are in place and reviewed on a regular basis. This role is part of the 'second line' Risk and Compliance function and reports to the CRO. They are also responsible for ensuring any changes in the law are noted and applied to our policies and procedures, where appropriate. In the last year there have been no material changes in legislation or guidance in the UK.

The Group has not been involved in any incidents resulting in prosecutions, fines or penalties, or in similar incidents of non-compliance in respect of bribery, corruption or other illegal business practices (2023: none).

Anti-money laundering and financial crime

As a financial services entity, we also have procedures in place to ensure that our business cannot be used to facilitate money laundering, sanctions abuse or other forms of financial crime. These are consistently reviewed to ensure they remain robust. We continue to monitor the increasing complexity of financial crime risk, regulatory enforcement action and any potential or actual changes to the legislative framework to manage the emerging threats. During the financial year continued investment has been made in both resources and technology to ensure that our anti-money laundering and financial crime infrastructure and processes continue to operate rigorously and meet the changing legal and regulatory landscape.

We are covered by the UK Market Abuse Regulation ('MAR') which contains prohibitions of insider dealing, unlawful disclosure of inside information and market manipulation, and provisions to prevent and detect these. Our internal policies, including the group-wide dealing policy, ensure that any inside information is properly identified and controlled, and that any employee or third party in possession of such information is identified and monitored. The identification of inside information is supervised by the Disclosure Committee, a committee of the Board of Directors (Section B4.1).

Employees receive regular annual training in these areas, with their understanding being tested and levels of completion monitored through the governance framework and reported to regulators where appropriate.

Management responsibility

Our senior legal officer is the General Counsel, Marius van Niekerk, who is a member of the Executive Committee and attends meetings of the Board. The CRO, Ben Whibley, has overall responsibility for the risk and compliance functions. He is also a member of the Executive Committee and reports directly to the Risk and Compliance Committee of the Board (see Section B8).

All business heads are responsible for having the appropriate controls in place to ensure that employees adhere to our anti-money laundering, anti-bribery and anti-corruption policies and procedures and other policies relating to business practices at all times. This is monitored as part of our risk management process and reviewed, as appropriate, by the Internal Audit function.

Whistleblowing

A whistleblowing hotline, run by an independent third party, Protect, is available to employees who have concerns over any aspects of our business practices. This is described further in Section B4.6.

A7. Approval of Strategic Report

Section A of this Annual Report comprises a Strategic Report for the Group. The information on how the directors have discharged their duties under s172 of the Companies Act 2006 included in Section B4.3 of the corporate governance report is also included in this strategic report by reference.

This Strategic Report has been drawn up and presented in accordance with, and in reliance upon, applicable English company law, in particular Chapter 4A of the Companies Act 2006, and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

It should be noted that the Strategic Report has been prepared for the Group as a whole, and therefore gives greater emphasis to those matters which are significant to the Company and its subsidiaries when viewed as a whole.

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

Ciara Murphy

Company Secretary

3 December 2024

B.

Corporate Governance

How we run our business and how risk is managed

B1. Chair’s statement on corporate governance

Dear Shareholder

In this section of the Annual Report we describe our corporate governance approach and the activities of the Board and its committees in the year, including the most significant issues we have considered. We also explain how we comply with the UK Corporate Governance Code and with stakeholder expectations as to how a business like ours should be run.

This year has been focussed on the progress of the strategy we have previously set out. The economic environment has become progressively more stable, allowing the Board to focus more on the growth and development of our businesses while we also saw the completion of significant steps in our digitalisation roadmap and the full implementation of the FCA Consumer Duty.

The Board was also focussed on challenges for the future. The financial policies of the new UK Government will undoubtedly have an impact on the UK economy, impacting us and our customers, while other policy initiatives may also affect some sectors in which we operate.

In the regulatory sphere we saw some additional clarity in the year, with an updated UK Corporate Governance Code (the ‘2024 Code’) published and the PRA moving its work on the implementation of the Basel 3.1 capital rules towards completion.

All these topics were significant considerations for the Board in the year and will continue to be so going forward.

The year also saw the completion of a tender process for our external audit arrangements for the year ending 30 September 2026, which, after careful consideration, resulted in a recommendation from the Audit Committee to appoint Deloitte LLP in place of KPMG.

During the year we followed up the independent external board performance review carried out last year with an internal review and I was pleased with the progress made on the actions identified, and with the conclusion that the Board continued to perform effectively.

We have begun the process of reviewing the 2024 Code to determine what actions will be required before it begins to apply to us in our financial year ending 30 September 2026. The flexibility which the 2024 Code gives to boards to design systems of governance, risk management and control which are specific to their operations is very welcome and the risk management framework we already have in place addresses many of the requirements of the new Code. In common with other entities in the regulated financial services sectors, the disciplines of governance and risk management are well established in our business, which should make transition to the 2024 Code smoother than for some other sectors.

The Board appreciates the value which our corporate governance framework brings to the activities of the business and the discipline which the UK corporate governance framework has instilled over time. We seek to comply with the Code wherever possible, in a way that is proportionate and relevant to our activities and are confident that we can continue to do so as the 2024 Code is introduced.

During the year we also followed with interest the development of UK Government policy on corporate governance, directors' duties and audit regulation. While developments in the year were more limited than we might have expected at the beginning of the period, the new UK Government has clearly signalled its appetite for reform in these areas, and we await its proposals with interest.

Engagement

The Board values feedback from investors and other stakeholders and I was pleased to note the high level of shareholder support for the resolutions proposed at the 2024 AGM. I also value the feedback received from investors and their representatives in the run-up to the meeting. We take careful note of the analysis provided and would encourage all shareholders to engage in this process.

I have also been pleased to have had the opportunity of meeting a number of shareholders during the year. These conversations allow me to share investor insights and priorities with the Board and enable us to include these in our considerations of group strategy. 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.

At our 2026 AGM we are due to put a revised directors' remuneration policy before shareholders for approval. This will be developed in the coming year and our interactions with shareholders, proxy agencies and other representatives will form an important part of this process. It is therefore important that anyone who has a particular interest in this area of policy should take the opportunity to make their feelings known.

Members of the Board have continued to attend some of the meetings of our People Forum, and value the insights provided on many operational and strategic matters. I have also continued to spend time with employees in many areas of the business, and I thank them for their time and input.

Inclusion

During the year we have been encouraged by the development of the EDI network and our wider inclusion and diversity strategy. Our strategy requires continuous development of products, people and processes and that cannot be achieved without diversity of thought and outlook at all levels.

At board level I am pleased to be able to report that we have been able to set a target for ethnic minority representation in senior management, as requested by the Parker Review. We have chosen to set this target on the same basis already used for our commitments under the FTSE Women Leaders initiative.

I was also pleased to welcome Louisa Sedgwick to our executive committees, as Managing Director – Mortgages, the first woman to be responsible for a profit-generating division in our history. It is also a credit to our succession planning arrangements that this was an internal promotion.

We continue to monitor developments in this area, particularly as further government intervention seems likely under the new administration. We hope that any such intervention will be proportionate and will help to support industry, regulatory and other initiatives already in place.

Board and committee membership

Board membership was stable in the period, with the only changes those indicated in my report last year. Hugo Tudor handed over his responsibilities as Remuneration Committee Chair to Tanvi Davda in December 2023, once the committee's work on the 2022/23 remuneration cycle was complete. We ceased to consider Hugo as independent on 6 March 2024 at the conclusion of the 2024 AGM, given his length of service, and he stepped down from his committee memberships. However, he continues to make a significant contribution to the Board's activities as a non-independent non-executive director, and we are proposing him for a further term at the forthcoming AGM.

Following the year end, Tanvi joined the Audit Committee, strengthening that committee's available resources and providing a further bridge between our discussions of results and remuneration. I consider that our board is well placed to continue to fulfil the role expected of it.

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 our operations. I invite shareholders to join us on 5 March 2025 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

3 December 2024

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'). The Code is publicly available on the FRC website at www.frc.org.uk.

Throughout the year ended 30 September 2024, the Company complied with the principles and provisions of the Code.

The Board has noted the publication of an updated version of the Code by the FRC in January 2024. These changes will not apply to the Group until its financial year ending 30 September 2026, at the earliest, and work has commenced to ensure that the Company will be compliant with the new Code on implementation.

The table below cross-references the individual Code Principles to the sections of this report which explain how they have been applied in our corporate governance structure.

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

B3.1 Board of Directors

Members of the Board of Directors at the date of approval of the Annual Report are set out below.

Key

Committee memberships at 30 September 2024 are indicated as follows.

- ☆ Nomination Committee
- △ Audit Committee
- ◇ Remuneration Committee
- ⬡ Risk and Compliance Committee
- ○ Disclosure Committee

Robert D East

Chair of the Board
Nomination Committee Chair
(Age 64)

☆ ◇ ⬡

Appointed to the Board as independent non-executive 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

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

Nigel S Terrington

Chief Executive Officer

(Age 64)

Appointed to the Board as Treasury Director in 1990, 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 Paragon 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 previously was a member of the Bank of England Residential Property Forum.

Until September 2023, Nigel was a member of the Board of UK Finance, having previously served as 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.

Nigel is a trustee of the Banking for Barnardo's charity.

Specific areas of expertise*

- Strategic and detailed understanding of banking and of our business, its markets, its operations and its people
- Leadership of Paragon'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 business 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 59)

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

Experience

Richard joined the business 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 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 our business, 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 CRO, Richard takes a lead on progressing Paragon's IRB accreditation

Current external appointments

Director of Woodman Portfolio Holdings Limited

Director of Rose Wine Limited

Director of Chalet Woodman S.à r.l.

Alison C M Morris

Non-executive director

Audit Committee Chair

(Age 65)

Appointed in 2020 – four 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.

Until recently Alison was a non-executive director of M&G Group Limited, where she was also audit committee chair, M&G Investment Management Limited and M&G Alternatives Investment Management Limited, all companies within the M&G plc group.

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 Sabre Insurance Group PLC and Sabre Insurance Company Limited, and chair of the Sabre Insurance Group audit committee

Non-executive director of Quilter plc and its subsidiaries, Quilter Life & Pensions Limited, Quilter Investment Platform Limited and Quilter Financial Planning Limited, and member of the Quilter plc audit, risk and remuneration committees

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

Peter A Hill

Non-executive director

Risk and Compliance Committee Chair

(Age 63)

Appointed in 2020 – four 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, secretary, treasurer and chair of the finance and governance committee of Leeds Rugby Foundation

Deputy chair and treasurer, Leeds Rugby Foundation Services Limited

Hugo R Tudor

Non-independent non-executive director

Remuneration Committee Chair

(until 7 December 2023) (Age 61)

Appointed in 2014 – ten 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 Sevenoaks Vine Cricket Club Limited

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

Barbara A Ridpath

Non-executive director

(Age 68)

Appointed in 2017 – seven 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 and Change 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

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

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

Graeme H Yorston

Non-executive director

(Age 67)

Appointed in 2017 – seven 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

Director of Calon Lan Consultancy

Tanvi P Davda

Remuneration Committee Chair

Non-executive director

(Age 52)

Appointed in 2022 – two years served

Chair of the Remuneration Committee since 7 December 2023

Became a member of the Audit Committee from 1 November 2024

Experience

Tanvi brings a diverse range of skills and knowledge to the Board, built up over an executive career of more than 25 years.

She 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 53)

Appointed in 2023 – one year served

Experience

Zoe's extensive 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 at 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

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

B3.2 Executive Committees

The membership of our executive committees is 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

Louisa Sedgwick
Managing Director – Mortgages*
Since 2024

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

Derek Sprawling
Managing Director – Savings†
Since 2024

* Louisa was appointed with effect from 13 August 2024. Richard Rowntree held this role until he left the business in the year.
† Michael Helsby also held ExCo responsibility for our savings operation until Derek Sprawling joined the committees in the year.

All members sit on both the Executive Performance Committee and the Executive Risk Committee ('ERC'). The Chief Internal Auditor, Sarah Mayne, attended meetings of both committees as an observer during the year and became a member of the committees in October 2024, after the year end.

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 movements, inflation and other macro-economic uncertainties in the UK on our businesses
- Monitoring progress of our digitalisation programme
- Oversight of our implementation of the FCA Consumer Duty, the scope of which extended to legacy products in the year

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

Information regarding the Board's programme of training and development can be found in Section B4.5. 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 our change programme	Oct 2023, Feb, Apr, Jul 2024
Deep dive review of the motor finance business provided by senior management	Oct 2023
Deep dive review of the structured lending business provided by senior management	Oct 2023
Deep dive review of the Mortgage Lending business provided by the then Managing Director – Mortgages, including an update on the Private Rented Sector and the mortgage market	Oct 2023
Approval of the corporate plan for the financial years ending 2023 to 2028. More detail on the Group's strategy can be found in Sections A3 and A4	Nov 2023
Update on matters discussed at the NED Technology Change Group meeting	Dec 2023, Apr, Jul, 2024
Detailed update on progress of significant elements of our digitalisation strategy	Feb 2024, Sep 2024
Deep dive review of SME lending provided by senior management from the area	May 2024
Reviewed the implications of political change, including the impact of elections in Europe	Jul 2024
Deep dive review into the banking and macro-economic environment, including the output of the inflation shock, competition and demographics	Jul 2024
Risk and regulation	
Review of our procurement approach, supplier base, assurance approach and timeliness of payments	Oct 2023
Approval of the 2023 ILAAP (the 2024 ILAAP was due to be presented for approval after year end)	Nov 2023
Progress update on our Consumer Duty project and the approval of its closure	Dec 2023, Jul 2024
Approval of Consumer Duty Annual Report for 2024	Jul 2024
Update on our IRB application	Jul 2024
Approval of the 2024 ICAAP	Apr 2024
Approval of the 2024 Recovery Plan	Jul 2024

Topic	Meeting
Risk and regulation	
Update on regulatory and other matters (including expected impact of the new government, regulatory issues and opportunities, broader opportunities and challenges, and financial crime risk management and intervention) delivered by external experts	Jul 2024
Annual review and approval of the Group's principal risk categories	Jul 2024
Cyber security / operational resilience	
Approval of 2024 operational resilience self-assessment	Mar 2024
Update on procurement and suppliers including material outsourcing arrangements	Oct 2023
Update on cyber security, delivered by the IT Director	Nov 2023
Update from the COO on technology and change across the business	Apr 2024
Corporate governance	
Review and approval of the board skills matrix, as recommended by the Nomination Committee (Further details of this process are given in Sections B4.5 and B5.3)	Oct 2023
Consideration of the output of the 2023 board evaluation and progress on prioritised actions arising (Further detail can be found in Section B4.4)	Oct 2023, Feb 2024
Recommendation of the declaration of a final dividend of 26.4 pence per share in respect of the financial year ended 30 September 2023 and of a share buy-back programme for 2024 (with up to £50.0 million announced with the preliminary results)	Dec 2023
Annual review of the Corporate Governance Policy Framework	Feb 2024
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 2024
Approval of the Modern Slavery and Human Trafficking Statement and Policy following an annual review	Mar 2024
Annual review of tax strategy and compliance, and approval of policy statement	Mar 2024
Approval of the declaration of an interim dividend of 13.2 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 2024
Consideration of the proposed approach for the 2024 Board evaluation	May 2024
Annual consideration of our Purpose and its alignment to our culture, as part of the 2024 internal performance review	Sep 2024
Approval of external audit arrangements for the financial year ending 30 September 2026 and thereafter, following a tender process conducted by the Audit Committee, subject to shareholder approval at the 2026 AGM	Sep 2024
Approval of appointment of Tanvi Davda as a member of the Audit Committee with effect from 1 November 2024, on the recommendation of the Nomination Committee	Sep 2024
Sustainability	
Consideration of employee feedback and other matters raised and discussed at November's People Forum meeting	Nov 2023, May 2024
Consideration of shareholder feedback following the year-end results announcement	Dec 2023, Feb 2024
Reflection on 2024 AGM and related shareholder engagement	Mar 2024
Approval of 2024 all-employee Sharesave invitation	Apr 2024

Topic	Meeting
Sustainability	
Savings customer insight presentation delivered by senior management from the Insight and Savings teams	May 2024
Consideration of shareholder feedback following the half-year results announcement	Jul 2024
Update on ESG / sustainability and climate change related issues delivered by the Chair and Deputy Chair of the Sustainability Committee	Sep 2024
Annual review and approval of our Equality, Diversity and Inclusion Policy	Sep 2024

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:

- Key strategic priorities
- Change programme
- Operational resilience
- Sustainability
- Customers
- People
- Public affairs
- Corporate development opportunities

The activities of the Board's principal committees are discussed in their respective reports in Sections B5 to B8.

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 also attended a number of ad hoc meetings (not included in the table below), workshops and training sessions during the year and have contributed to discussions outside 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)	4 (4)	2 (2)
Nigel S Terrington	10 (10)	-	-	-	-
Richard J Woodman	10 (10)	-	-	-	-
Tanvi P Davda	10 (10)	-	5 (5)	4 (4)	2 (2)
Peter A Hill	10 (10)	5 (5)	5 (5)	-	-
Zoe L Howorth	10 (10)	-	5 (5)	3* (4)	-
Alison C M Morris	10 (10)	5 (5)	5 (5)	4 (4)	2 (2)
Hugo R Tudor	10 (10)	2 (2)	3 (3)	2 (2)	-
Barbara A Ridpath	10 (10)	5 (5)	5 (5)	-	2 (2)
Graeme H Yorston	10 (10)	-	5 (5)	4 (4)	2 (2)

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

* Zoe Howorth was unable to attend the November 2023 Remuneration Committee meeting due to prior commitments that were notified to, and pre-agreed with, the Chair in advance of her appointment to the Board.

B4. Governance Framework

This section describes how Corporate Governance operates within our business, 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 business 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

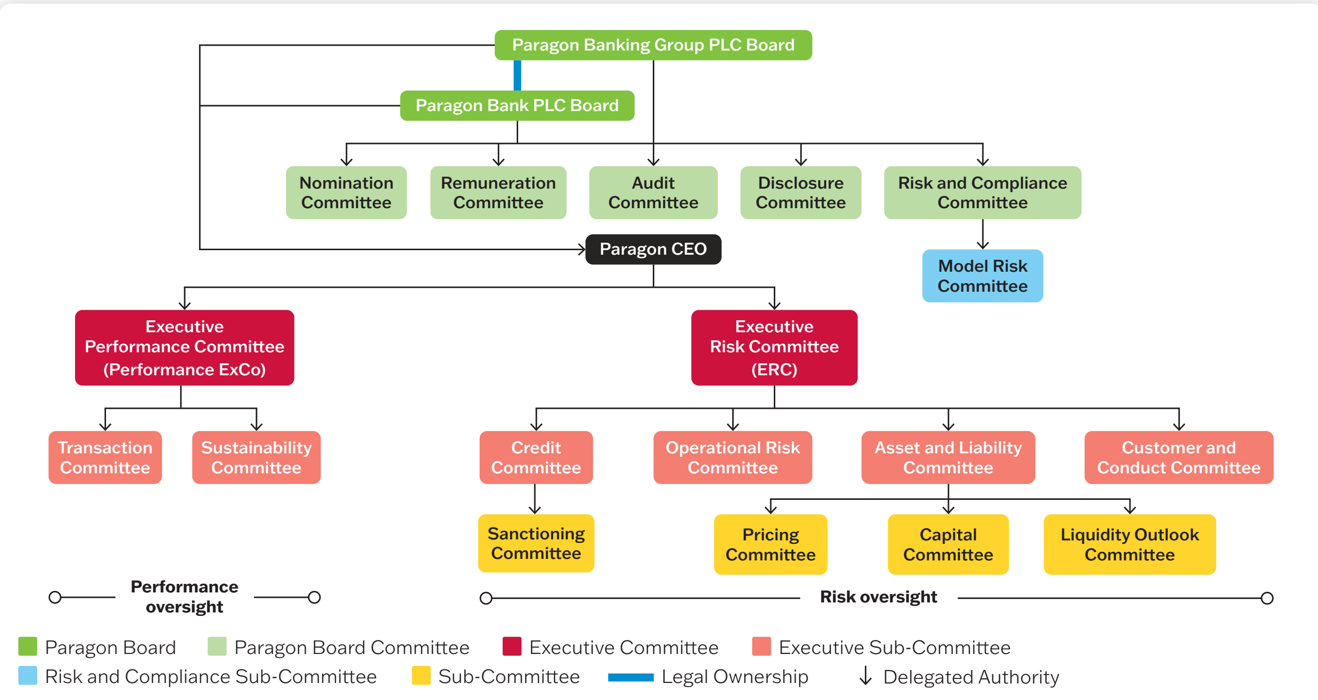
Board leadership, group purpose and the Group Corporate Governance Policy Framework

The Board of Directors is responsible for promoting the long-term, sustainable success of our business, generating value for shareholders and contributing to wider society. It establishes our overall purpose, values and strategy and ensures that these and our culture are aligned. The Board is also responsible for the 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	T P Davda (from 7 December 2023)	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	From 7 December 2023
P A Hill	Yes	Yes	No	Yes	No
Z L Howorth	Yes	No	Yes	Yes	No
A C M Morris	Yes	Yes	Yes	Yes	Yes
B A Ridpath	Yes	Yes	No	Yes	Yes
H R Tudor	No †	Until 6 March 2024	Until 6 March 2024	Until 6 March 2024	Until 6 March 2024
G H Yorston	Yes	No	Yes	Yes	Yes

* Considered independent on appointment as Chair of the Board of Directors on 1 September 2022.
† Ceased to be considered independent from 6 March 2024.
‡ Appointed to Audit Committee 1 November 2024, after the year end.

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 agreed at the time that his appointment would be renewed for a further twelve months, but that he would be deemed to be a non-independent non-executive director from the conclusion of the 2024 AGM on 6 March 2024. He handed 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.

Due to the skills and experience that Hugo brings to the Board, particularly in respect of strategy and remuneration, it was subsequently agreed that he would remain a director for a further twelve months, to 23 November 2025, subject to his re-election at the 2025 AGM.

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.

The informal 'NED Technology Change Group', established in 2021 comprises some of the non-executive directors, the COO and senior managers from the IT and Change functions. The group met on a number of occasions in the year as part of an ongoing programme of meetings to receive and discuss updates on the change programme (the methods and processes of making changes to 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.

Following a review of the group's role during the year, and given the significant progress on change and the IT strategy amongst other matters, it was agreed that the group would meet on an as-needed basis going forward to receive more high-level, strategic updates.

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.

More information on the work of the ERC is provided in Section B8.2

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, Managing Director - Savings, COO, 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.

More information on the work of the Sustainability Committee is provided in Section A6

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

We are proud of the culture embedded in our business, and the Board monitors the alignment of this culture with our purpose, values and strategy on an ongoing basis. In the event of a change in business model, operations and / or strategy, the Board would consider the culture of the business as part of a review of our purpose as a whole. The interests of customers and employees are at the heart of our strategy, business and culture.

While the assessment and monitoring of our culture is a business-as-usual activity for the Board, it also considers culture as part of its annual review of our purpose. This took place in July 2024 with no amendments made to the purpose and no material actions in respect of culture identified. The Board considered its own effectiveness in promoting and monitoring our culture as part of its 2023 external performance evaluation, and again as part of the 2024 internal evaluation. No significant issues in this respect were noted on either occasion.

Our cultural focus is demonstrated through our accreditation as a Platinum Investors in People ('IIP') employer, highlighting our commitment to a structured and highly effective framework for leading, developing and rewarding our people. We are also accredited by the Living Wage Foundation, and we encourage our suppliers to apply the same standards. When dealing with customers, our cultural focus on delivering good outcomes predates the introduction of the FCA Consumer Duty and has long been fundamental to our outlook.

To assess and promote our corporate culture, non-executive directors have attended People Forum meetings as part of the Board's commitment to engage directly with the workforce and to assess whether purpose, values, strategy and culture are aligned. Further detail can be found at B5.3. Direct employee feedback, which included consideration of our culture, together with feedback received through the People Forum, were reviewed in depth by the Nomination Committee on behalf of the Board. The strong employee engagement and employee attestations, including that the employees lived the Company's values and purpose, were noted.

The citizenship and sustainability section (A6) demonstrates how our culture is reflected in relationships with customers, employees and the wider community

Matters Reserved for the Board

The schedule of matters reserved for the Board is reviewed annually and made available on our corporate 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. 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 our corporate website.

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

Role of 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 determined that Hugo Tudor ceased to be considered independent following the 2024 AGM, independent non-executive directors continue to form the majority of our Board.

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 employees. More detail on these interactions can be found in Section A6.3.

During the year Hugo Tudor attended the MRC on behalf of the non-executive directors. Throughout the year, Graeme Yorston served as the Consumer Duty Board Champion, as part of our implementation of the FCA Consumer Duty principles. As outlined in Section B4.1, certain non-executive directors also met 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 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 has served as Senior Independent Director throughout 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.

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 internal board evaluation carried out in the year, which is described in Section B4.4, an appraisal of the Chair was carried out by the Senior Independent Director in conjunction with the non-executive directors.

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 business.

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

Subsidiary governance

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

Composition and succession

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

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 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 2024 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 B5.4.

Board performance review and training

The performance of the Board, individual directors and the Board's main committees are reviewed annually, and our policy is that externally facilitated reviews should take place triennially, as required by the Code. The most recent externally facilitated board evaluation took place during the financial year ended 30 September 2023. During the most recent financial year an internal evaluation was conducted. 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 Sections B6 and B8.

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 our corporate 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 our 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 our approach to corporate responsibility and sustainability, including 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 stakeholders and, where applicable, considers the impact of those decisions on the communities and environment within which we operate. The Board is mindful of its duty to act in good faith and to promote the long-term, sustainable success of the business for the benefit of its shareholders and with regard to the interests of all 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 2024, it has acted to promote the long-term sustainable 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 our key stakeholders, how this is aligned to our strategic priorities and culture and why the stakeholders listed are significant for us.

Shareholders

Creating long-term shareholder value through growing profits and dividends (s172(1) 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

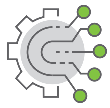
- 81 meetings were held with shareholders and analysts under our Investor Relations Programme. In addition, the CEO and CFO hold regular analyst briefing meetings
- A comprehensive update on Investor Relations is included in the CEO's report presented at each Board meeting
- The Remuneration Committee carries out comprehensive engagement and seeks the views of major shareholders and shareholder advisory groups. It considers these views when drafting and applying the Remuneration Policy
- The Board receives an in-depth update on Investor Relations, which includes investor feedback, following the publication of our financial results

Capital management

Growth

Outcome

- The data on shareholder feedback provided helps the Board align our strategy with the interests of shareholders
- Increasing shareholder interaction is helping to frame our response to reporting and targeting in relation to sustainability matters, in particular climate change risk
- At the AGM in March 2024, all resolutions were approved by shareholders with over 95% of votes cast in favour of each resolution
- A total dividend for the year of 40.4 pence per share is proposed, and a further share buy-back programme of up to £100.0 million was authorised in the year



Diversification

Digitalisation

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

Our 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(1) c)

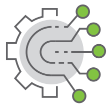
Our customers are at the heart of our business and our eight core values underpin the way we interact with them every day. Engagement with our customers enables us to maintain our deep understanding of them and the markets they operate in, designing products to meet their needs and continually striving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

How we engage and / or monitor

- Regular customer satisfaction surveys on key product lines are reported to the Board
- Savings customer survey conducted during the year, including questions about customers' spending habits and sentiment regarding their financial position
- Focussed analysis on key customer groups is undertaken, including quarterly surveys of SME and buy-to-let customers
- The Board receives Customer Insight updates annually
- The Board received periodic updates on progress towards implementing the new FCA Consumer Duty, which was extended to legacy products in the year, and received its first Consumer Duty Annual Report
- The Board continues to oversee DCA complaints and reviews related guidance in light of the FCA review of UK Motor Finance commission arrangements and associated issues
- Graeme Yorston, an independent non-executive director acts as the Board's Consumer Duty Champion
- The in-depth Next Generation Landlord Report was commissioned, enabling a better understanding of current and prospective customers
- Customer metrics are a key element of the Performance Share Plan ('PSP')

Digitalisation

Sustainability



Diversification

Growth

Outcome

- Roll-out of 'Think Customer!' training for all employees
- Greater understanding of customers and their priorities is used to refine product offerings, documentation and processes
- All employees receive 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

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(1) 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 all-employee anonymous engagement surveys are conducted, most recently in 2023
- All-employee benefits survey carried out in the year
- New onboarding and leaver surveys were launched to enhance feedback opportunities and drive improvements
- Chief People Officer updates the Board and ExCo on employee feedback from surveys and from the People Forum, as well as other metrics
- Chair and non-executive directors attend our 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
- EDI network is sponsored by a member of ExCo and, during the year, members of the Board and ExCo are invited to attend employee listening circles
- Nomination Committee receives six-monthly updates on succession planning and EDI network feedback from the Chief People Officer
- People metrics are a key element of the PSP

Outcome

- We are accredited as an Investor in People with Platinum IiP employer status
- We signed the Mortgage Industry's Mental Health Charter
- We pledged our support to the Better Hiring Charter
- 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 are embedded at all levels
- Purpose and Performance Profiles for career development were introduced, in response to employee feedback

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(1) 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 Board are kept updated on all interaction with the FCA and PRA
- SMCR is embedded throughout the organisation, with conduct measures monitored monthly, overseen by the ERC
- Dialogue maintained with HMRC, with the CFO designated as Senior Accounting Officer, directly responsible for our 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
- The Risk Adjustment Review Group, with authority delegated by the Remuneration Committee, identifies and considers instances of potential risk adjustment for MRTs and others on a more formal and structured basis

Further information on our 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(1) 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

- We partnered with Future First, supporting young people from disadvantaged and low-income backgrounds
- In the twelve months ended 30 September 2024 employees raised £49,000 for Molly Ollys
- Our employee-led Charity Committee is sponsored by a member of ExCo
- Employees were supported to take part in a range of volunteering activities
- 460 employee volunteering days were used to support specific initiatives in local communities

Further information about our charitable and 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(1) d)

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

Sustainability

How we engage and / or monitor

- The executive level Sustainability Committee addresses all climate-related issues across the business, escalating to the Board as appropriate
- Climate change is designated as a principal risk
- The Board receives updates on the potential risks and strategic impacts of climate change
- We are a member of Bankers for Net Zero
- The CFO has been designated as the responsible director for climate change matters
- The annual ICAAP, approved by the Board, includes climate change scenario analysis

Outcome

- Our range of buy-to-let mortgage products includes incentives for those landlords who wish to invest in energy-efficient properties
- The Green Homes Initiative in our development finance business was extended in the year
- Our motor finance business offers loans to finance battery electric vehicles, including light commercial vehicles
- 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 programme
- Environmental / climate change targets are considered as part of the Remuneration Policy
- Our Responsible Business Report is published annually and our corporate website has a dedicated sustainability section

Further information on our management of climate change risk and our 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(1) c)

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

How we engage and / or monitor

- Key business partner relationships, including intermediaries and suppliers are identified, actively monitored and reported to ExCo and the Board
- The Board was provided with an update on our procurement approach, and composition of the supplier base, including material outsourcing arrangements, the assurance approach and timeliness of payments
- Regular feedback surveys conducted amongst intermediaries with the results fed back to ExCo and Board
- Our Supplier Code of Conduct sets out our overall approach to supplier engagement and our expectations of suppliers
- A questionnaire covering broad sustainability topics is issued to new suppliers as part of the onboarding process

Digitalisation

Sustainability

Outcome

- New digital platform launched to mortgage intermediaries, reflecting feedback received from brokers
- Intermediary feedback key to updating and streamlining other operational systems and processes
- 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
- We are a signatory to the UK's Prompt Payment Code, and ensuring that suppliers are paid promptly is a priority

Our 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 our 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 2025 AGM will take place at 9am on 5 March 2025, at the offices of the Company at 25th Floor, 20 Fenchurch Street, London EC3M 3BY.

The CEO and CFO have a full programme of meetings with institutional investors and during the year ended 30 September 2024, 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 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 2023 Annual Report and Accounts and the 2024 AGM notice, we invited our largest stakeholders, who collectively represent over 94% of the Company's total voting rights to share their views ahead of the Company's 2024 AGM.

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

The Senior Independent Director, Alison Morris, is also made aware of views expressed by shareholders whether to other members of the Board, via our brokers or through the Investor Relations team. Meetings between the Senior Independent Director and shareholders can be arranged through the offices of 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 performance review

The effectiveness of the Board, individual directors and the Board's main committees is reviewed annually. An internal performance review, which is described below, was completed in the year while work continued in the period to address and close the key findings of the externally facilitated review carried out towards the end of the preceding financial year.

2024 board performance review

In line with recognised best practice, board performance reviews are undertaken on an annual basis to increase board effectiveness and to identify areas for improvement. The 2024 review was carried out on an internal basis, using the process outlined below.

In drafting this disclosure on our board performance review, the Corporate Governance Institute ('CGI') guidance note 'Reporting on board performance reviews: Guidance for listed companies', published in September 2023, was consulted.

Performance review methodology

Following the thorough, externally facilitated, review which was undertaken in 2023, the surveys completed by board members as part of that exercise were used again and directors were asked whether any of their responses differed for 2024. If they answered in the affirmative, they were asked to provide more detail.*

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

Phase and timing	**Activities**
Review and completion of surveys (July 2024)	Board members reviewed the 2023 surveys which assessed the performance of the Board and each of its committees, as well as the performance of the Chair of the Board. Each director also reviewed the self-assessment questionnaire they completed in 2023 addressing their own performance. Any changes to their assessment responses from 2023 were provided.
Meetings (August 2024)	The Chair of the Board appraised the performance of the non-executive directors, meeting with each non-executive director on a one-to-one basis to evaluate their performance and agree development areas. The Senior Independent Director, in conjunction with the non-executive directors and without the Chair present, appraised the performance of the Chair.
Board discussion and presentation (September and October 2024)	In advance of discussion at the relevant board and committee meetings, summaries of findings were shared with the Chair of the Board and summaries of findings in respect of each board committee were shared with the respective committee chair for discussion. Actions were agreed for implementation and monitoring.

* With the exception of Zoe Howorth who did not complete the 2023 surveys, having only been appointed to the Board on 1 June 2023. Zoe received a copy of the 2023 surveys for completion in respect of the 2024 evaluation.

Key findings

Overall, the review confirmed that the Board continued to operate effectively and with the right culture. The majority of directors had no additional comments to their feedback provided in 2023 as part of the external performance review. Some scope for improvement was identified, with some aspects already in progress. These related to a number of focus areas, with agreed initiatives including:

- A business performance review template will be put in place to ensure consistent assessment of, and focus on, the performance of each business area
- In response to employee feedback, People Forum sessions with non-executive directors will be more informal and unstructured in future, so that better engagement can be generated
- Whilst competitive insight is already considered as part of board discussions, a greater emphasis on competitor analysis will be factored into future presentations
- So as to ensure an appropriate balance between debate and presentation, presenters are advised to take papers as read when appropriate, with the introduction of the revised review template noted above helping to ensure time is focused on key debating / discussion points

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

2023 external board performance review

During the financial year ended 30 September 2023, Lintstock Limited ('Lintstock') was engaged to conduct an external review of the performance of the Board and its committees. The review process is described in Section B4.4 of the Group's annual report and accounts for that year.

The review identified a number of focus areas, and recommendations which have been addressed in the course of the previous and current financial year as follows:

Recommendation	Actions taken
Providing opportunities for informal strategic discussion throughout the year, to supplement existing board strategy sessions	Business areas are requested to include a summary of their strategy and current competitive dynamics in business performance updates. Strategic issues are considered by the Board during the year as part of various discussions.
Continuing to strengthen the Board's familiarity with relevant technological developments	Technology was a core theme at the strategy offsite. Externally facilitated cyber training was provided during the year and a training session created by the COO with third party providers for presentation to the Board.
Further enhancing the Group's focus on customers, including the user experience and various target customer groups across the business	Several Consumer Duty updates were considered by the Board during the year, in addition to the inaugural Consumer Duty Annual Report in July 2024. Customers were a key focus of numerous board discussions on funding strategy throughout the year. A Customer Board Report was developed during the year, which will be included in monthly board papers from the start of the 2025 financial year.
Continuing to monitor executive succession plans closely	Succession planning was considered by the Nomination Committee during the year, with a focus on building bench strength.

Other evaluation activities

In addition to the 2024 internal performance 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 2025 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 any observations from the internal board performance review, took place at the Remuneration Committee meeting in September 2024 that considered remuneration packages for 2024/25 and variable remuneration outcomes for 2023/24. Further information on this process is given in the Directors' Remuneration Report (Section B7).

At the 2025 AGM, the Chair will confirm to shareholders, when proposing the election or re-election of any non-executive director that, following formal performance evaluation, their performance continues to be effective and demonstrates commitment to their role. The letters of appointment of the non-executive directors will be available for inspection at the AGM.

B4.5 Board training and development

Oversight of the Board's training and development programme is the responsibility of the Nomination Committee and contributes to ensuring the ongoing effectiveness of the Board. Details of the committee's activities in this area are set out in the Nomination Committee section (B5).

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.

Zoe Howorth, who was appointed to the Board on 1 June 2023, completed her induction programme during the year, meeting stakeholders across the business. Further, Tanvi Davda, who became chair of the Remuneration Committee on 7 December 2023 received induction training for her new role, building on her experience as a member of that committee.

Development

Following Board approval in October 2023, an updated 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.

A number of topics agreed for board development were delivered during the financial year, with further topics agreed for the coming period. This programme aims 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 have been provided during the period and will continue to be made available during the forthcoming financial year. A training schedule is maintained by our Human Resources department in conjunction with the Company Secretary.

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

Topics for board training sessions are recommended to, and approved 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 all our employees. These are delivered online, and cover risk management, financial crime, customer outcomes, regulatory requirements and sustainability matters including EDI, amongst other matters.

Business insight and awareness sessions, and deep dives covering particular areas are held regularly to provide non-executive directors with the appropriate depth of knowledge to contribute effectively at board meetings on key business topics.

Specific detailed training sessions were provided in the year on the following subjects:

Topic	Board meeting
Legal and regulatory: covering topics including UK MAR, directors' duties, key prudential priorities, conduct and the Consumer Duty	Mar 2024
Remuneration: covering risk adjustment and variable pay awards (attended by Remuneration Committee members)	Apr 2024
Cyber: delivered by a combination of in-house experts and an external cyber security solutions provider	Apr 2024
Surveyor management and the Receiver of Rent: including a comparison between in-house and panel surveyors delivered by in-house experts	Apr 2024
Artificial intelligence in banking: covering market challenges common to lenders and AI in the current market	Jul 2024
Challenges for specialist lenders and the future of UK banking: delivered by a professional services firm	Jul 2024
Expected credit loss benchmarking: delivered by a professional services firm	Jul 2024
Regulatory: which covered topics such as the expected impact of the new UK Government, FCA and PRA priorities and financial crime risk management and intervention, delivered by a professional services firm	Jul 2024

B4.6 Whistleblowing

We have an established policy whereby employees can make disclosures regarding potential wrongdoing within our operations on a confidential basis, in accordance with the Public Interest Disclosure Act 1998 ('PIDA'). Paragon appreciates the importance of generating an environment where employees feel able to raise concerns safely, and therefore the policy provides that no employee making such a disclosure should suffer any detriment by doing so. Our whistleblowing advisory service is operated 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 Senior Independent Director and Chair of the Audit Committee, Alison Morris, is our 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, Chief Internal Auditor, 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 throughout our operations, all employees received training on the requirements of PIDA and our whistleblowing policy during the year. After the year end external training was provided to members of the Whistleblowing Group by Protect, to ensure they continue to manage the process in accordance with prescribed procedures. There were also internal publicity campaigns promoting the whistleblowing procedures.

During the year ended 30 September 2024, there were three instances of whistleblowing which resulted in a requirement for full consideration and investigation by the Whistleblowing Group (2023: one). These cases were fully investigated and concluded, with appropriate control enhancements implemented where necessary.

Procedures whereby customers who are dissatisfied with our response to any complaint about their treatment may seek recourse to an external party are discussed in Section A6.2.

B5. Nomination Committee

B5.1 Introduction by the Chair

Dear Shareholder

As the Chair of the Nomination Committee, I am pleased to present our report for the year. The Committee is tasked by the Board with supporting delivery of strategy through oversight of the composition of the Board and its committees, robust succession planning, supervising our diversity and inclusion strategy and monitoring workforce engagement.

We take these matters seriously as part of our duty to stakeholders, and as part of our objective of ensuring our governance arrangements are consistent with the highest corporate standards. In this context, we have been paying careful attention to developments in UK governance expectations in the year, while awaiting an indication from the new UK Government as to its policy intentions in this area.

During the year the composition of the Board has remained unchanged. Following several changes in recent years we believe that the Board has the right skills, experience and diversity of background and thought to be able to provide informed and constructive challenge to management while acting fairly in the interests of all shareholders.

Tanvi Davda replaced Hugo Tudor as Chair of the Remuneration Committee on 7 December 2023, which coincided with the completion of the Committee's work on the 2023 remuneration cycle. Hugo's third three-year appointment period came to an end in November 2023 at which point the Committee recommended his reappointment as a director for a further twelve-month period. Due to the skills and experience Hugo brings to board activities, the Committee has recommended to the Board that Hugo be reappointed for a further year, until November 2025.

The Committee has overseen two internal promotions to the Executive Committees during the year. Having led our Savings business since 2014, Derek Sprawling was promoted to the Managing Director - Savings in April, joining the committees. In August, Louisa Sedgwick was promoted to the role of Managing Director - Mortgages. Both appointments are testament to the succession planning activity undertaken within the business, which the Committee oversees.

Our commitment to diversity and inclusion remains a cornerstone of our nomination process, and we continue to strive for a broader and wider workforce whose composition reflects the diverse perspectives and expertise necessary to drive sustainable growth and value creation. During the year the Committee has overseen the development of our equality, diversity and inclusion strategy, including the introduction of a new 5% target for ethnic diversity in senior leadership roles. This new target addresses the request made by the Parker Review for all FTSE-250 companies to set a voluntary target to increase the number of ethnic minority appointments across senior leadership by 31 December 2027. It also complements our gender diversity target of having 40% of senior leadership roles filled by women by December 2025.

Employee feedback continues to provide an important source of insight into the organisational culture of the business for the Committee, and various members of the Committee have met with both our employee-led People Forum and our EDI network during the year. Employee voice has underpinned a number of initiatives during the year including the consolidation of our office locations in Solihull, initiatives to improve sustainability and the introduction of a new policy to provide paid time off to employees undergoing fertility treatment. I particularly value the varied perspectives on the business provided to the Committee by these contacts along with those I have received through my own interactions with employees across the business.

Overall, I consider that the Committee has fully satisfied its mandate from the Board during the year.

Robert East

Chair of the Board and the Nomination Committee

3 December 2024

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 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 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 initiatives on the promotion of equality, diversity and inclusion ('EDI') in our workforce, with a particular focus on our participation in external programmes, such as the Women in Finance Charter, the FTSE Women Leaders Review and the Parker Review, and on reporting including pay gap reporting
- Monitoring workforce engagement and seeking employee feedback on behalf of the Board as a barometer of organisational culture

The Committee has formal written terms of reference which are reviewed annually and approved by the Board, most recently in September 2024. The most recent review considered the impact of the 2024 Code and its associated Guidance on its remit and made appropriate amendments where required. These terms of reference are available on our corporate website.

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

B5.3 Matters considered by the Committee during the year

Board appointments

In November 2023, Hugo Tudor reached his nine-year tenure on the Board. During the year ended 30 September 2023 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, while Tanvi Davda succeeded 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.

At the conclusion of Hugo's first nine years in office the Committee recommended that he should continue as a director for a further twelve-month period, but that he should be deemed to be a non-independent non-executive director from the conclusion of the 2024 AGM in March 2024.

In September 2024, the Committee recommended to the Board that this appointment should be extended for a further year until November 2025. This recommendation was on the basis of the skills and experience that Hugo brings to the Board, particularly in respect of remuneration matters, and his insights into investor priorities, debt and equity markets and fund management.

During the year the Committee also considered the membership of the main board committees. As a result it recommended that Tanvi Davda should be appointed to the Audit Committee from 1 November 2024, which will restore the size of the Audit Committee to four members, and also provide her, as Chair of the Remuneration Committee, with deeper insight into our financial metrics. The Committee considers that Tanvi has the appropriate skills and experience required to contribute fully to the work of the Audit Committee.

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.

Senior management appointments

The Committee has overseen two internal promotions to our executive committees (the Performance ExCo and ERC) during the year. Having led our Savings business since 2014, Derek Sprawling was promoted to be Managing Director – Savings in April, taking executive committee responsibility for the operation. This change was in recognition of the growth in size of the Savings business.

In August, following the departure of Richard Rowntree, Louisa Sedgwick was promoted to Managing Director – Mortgages. Louisa had previously served as Commercial Director with the Mortgage Lending operation, and the Committee views her appointment as a particularly positive step forward towards its gender diversity targets, as it is the first time a female has held a Managing Director role in the Group, with responsibility for income generation.

Both appointments are testament to the high-quality succession planning activity that the Group undertakes, and the Committee oversees, and their appointments are supported by stretching personal development plans.

It was also decided that Sarah Mayne, the Chief Internal Auditor would become a member of the executive committees from 1 October 2024, rather than attending their meetings as an observer.

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 also in place for executive directors and their direct reports.

The Human Resources division develops and maintains succession plans for senior leadership roles. Effective succession planning, supported by the Group's talent management processes, helps leadership to identify and nurture internal talent, ensuring a pipeline of capable leaders ready to step into key roles as needed, particularly where recruitment is expected within the next five years.

Where the risk of current senior leaders leaving the business is deemed to be high, bespoke development plans are in place for strong performers identified as having high potential, and their progress is overseen by the Committee.

Our preference, where possible, is that internal candidates are developed and supported to undertake more senior roles, as this assists in the ongoing maintenance of our strong culture and values. We also acknowledge the benefits which can arise from the hire of capable external candidates to add experience and bring a fresh perspective to strategic thinking.

Board skills matrix

The Board Skills Matrix is reviewed annually by the Committee and forms the basis for continuing professional development and future succession plan requirements. The Committee reconsidered the matrix at its September 2024 meeting in light of the outputs from the strategy event in July 2024 and a revised matrix was reviewed and subsequently approved by the Board in September 2024.

The matrix reflects our strategic aim of becoming a technology-enabled specialist bank and considers technical competencies that are relevant to the corporate plan, and behavioural competencies which are aligned to the priorities set out by the PRA and FRC's Guidance on Effective Boards.

The application of the skills matrix in developing board training for the year is described in Section B4.5.

Diversity

We recognise the importance of diversity, including gender and ethnic diversity, at all levels of the organisation. During the year the Committee approved the EDI strategy, and it will continue to monitor progress against this through the use of both qualitative and quantitative metrics.

The Board is pleased to have maintained a consistent female representation of 40.0% at board level (2023: 40.0%) and 37.9% at senior management level (2023: 37.9%), exceeding the original Hampton-Alexander Review targets, where senior manager is defined as members of the executive committees and their direct reports. We are aligned to the ongoing objectives of the FTSE Women Leaders Review and are committed to increasing the number of women in senior roles. The Committee is monitoring progress towards our phase two Women in Finance target of 40% female representation at board and senior management level by 31 December 2025.

During the year the Committee also approved a new target of achieving 5% ethnic minority representation in senior management, using the same definition, by December 2027. This was a response to the Parker Review request that all FTSE-250 companies should set their own voluntary target to increase the number of ethnic minority appointments across senior leadership by 31 December 2027.

We continue to monitor the PRA's progress on their proposals on diversity and inclusion in the financial services sector. These were set out in October 2023 in their consultation paper CP 18/23, although final proposals are still awaited.

Board and executive management diversity

We strongly value 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 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.

Our adherence to the FCA Listing Rule requirement and our agreement of voluntary targets to meet the expectation of the Parker Review and Women in Finance Charter demonstrate our commitment to achieving a diverse workforce at all levels.

The data on diversity amongst the Board and senior management as required by UK Listing Rule UKLR 6.6.6R (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
30 September 2024					
Men	6	60%	3	9	64%
Women	4	40%	1	5	36%
Not specified / prefer not to say	-	-	-	-	-
Total	**10**	**100%**	**4**	**14**	**100%**
30 September 2023					
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
30 September 2024					
White British or other White	9	90%	4	13	93%
Mixed / multiple ethnic groups	-	-	-	-	-
Asian / Asian British	1	10%	-	1	7%
Black / African / Caribbean / Black British	-	-	-	-	-
Other ethnic group including Arab	-	-	-	-	-
Not specified / prefer not to say	-	-	-	-	-
Total	**10**	**100%**	**4**	**14**	**100%**
30 September 2023					
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.

We have interpreted this definition as including the Chief Internal Auditor, who attended the executive committees as an observer in the periods shown above, and reports directly to the Chair of the Audit Committee, a member of the Board. She became a member of the executive committees with effect from 1 October 2024, after the end of the year.

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 2024 and 30 September 2023 the Company therefore met the following targets specified in the FCA UK Listing Rules at UKLR 6.6.6R(9).

- 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 is 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

We believe that the achievement of a diverse workforce at all levels delivers the best culture, behaviours, customer outcomes, profitability and productivity and therefore supports our success as a business.

We are committed to eliminating discrimination and promoting equality, diversity and inclusion amongst all employees through our policies, procedures, and practices and through professional dealings with each other, customers and third parties.

The objective of the EDI policy is to outline our approach and to set out our expectations of employees and, in particular, line managers, to ensure this approach is understood throughout the workforce and appropriately managed.

The EDI policy is implemented through the development and communication of people processes and procedures to support it, by making the policy available to all our people and by engaging with and supporting them in displaying the policy's intent through the provision of regular training.

The Committee is pleased that 76.8% of employees provided diversity data for analysis at the beginning of the year and this increased to 80.9% by 30 September 2024. This supports our 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 progress in this area.

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

During the year the Committee reviewed our 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 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.

Our 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. Our gender pay gap statistics are also discussed in that section.

Workforce engagement

The Committee has received regular updates on workforce engagement and the Chair and other 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; sustainability; and hybrid working practices. 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.

Culture

The Board recognises the importance of providing oversight of our organisational and risk culture and seeks to do this through a variety of methods, ensuring that a wide range of cultural indicators are considered at a number of board-level committees. The Committee plays a role in the regular analysis of reports on metrics which illustrate aspects of our culture, including both employee engagement scores and diversity data, as well as reviewing progress on diversity and inclusion initiatives.

B6. Audit Committee

B6.1 Statement by the Chair of the Audit Committee

Dear Shareholder

While the economic outlook for the UK has a more settled feel than it has had for some time, it remains, to some extent, uncharted territory, with the potential for further negative impacts still a concern. In the face of this climate, the challenge for the Audit Committee has been to ensure that information provided to shareholders, other stakeholders and users of these accounts more widely remains objective, understandable and informative.

External audit arrangements have also been a major focus for us during the year, with a full tender process carried out, resulting in the selection of new external auditors for the 2026 financial year and thereafter.

At the same time changes in the UK regulatory environment have continued to provide us with additional challenges, with a new Corporate Governance Code published, one set of proposals, together with draft legislation relating to governance disclosures, abandoned by the outgoing government, and fresh legislation signposted by the incoming one in its first King's Speech, although little detail is yet available. We have also seen an update to international standards for internal audit, which we are reflecting in our internal procedures.

Overall these presented my colleagues and I with a variety of complex and interesting challenges across the broad spectrum of our responsibilities as a committee.

The IFRS 9 accounting standard, which covers impairment provisioning and income recognition on loan assets is to a great degree forward-looking, requiring approaches which rely on assumptions about future behaviours. These will always be subjective, and the Committee has engaged with both financial and operational management, and with KPMG, the external auditor, to ensure that all assumptions and judgements underlying the accounting are rigorously challenged.

These judgements are impacted by the underlying economics of the UK and their impacts on our customers. In particular, the continuation of interest rates at a higher level than we have been used to in the recent past, and the cost burdens faced by businesses and consumers still impacted by the inflation experienced in the last two years are significant factors affecting customer behaviours. Future behaviours may also be affected by the policy choices being made by the incoming UK Government and by wider geopolitical factors.

For impairment provisions, the resilience of the majority of our loan books over the year has been very pleasing, with loss outcomes less severe than many had feared, although the Committee has been careful to consider the potential that this may only represent a delayed impact. We were pleased to see the adoption of a second generation impairment model in our motor finance portfolio during the year, meaning that all the models used for provisioning on our open portfolios have been fully refreshed since the introduction of IFRS 9 for our 2019 accounts.

The outputs of our impairment models provide the Committee with a useful framework for considering the adequacy of provisioning, but the overriding requirement for the final position to be truly representative of our exposures and credit risks is the focus for evaluating and challenging the judgements made.

In the non-modelled portfolios, a particular area of focus for the Committee was the development finance book, where the incidence of loss recorded in the year was greater than we have seen historically. The Committee challenged management explanations on the reasons behind the loss incidence and the implications of these losses on future prospects.

For income recognition, the apparent peaking of interest rates in the year, and their gradual move towards a downward trend, had an impact on the behaviour of customers with maturing accounts. As the EIR method, which aims to spread income over the life of a loan, requires this behaviour to be projected for current loans, the level of judgement required is substantial, and the lack of recent experience of a change in the direction of interest rate expectations adds complexity to the exercise. The Committee has had to carefully consider and weigh the assumptions being made to ensure that the final results were appropriately representative.

The Committee greatly values the role of external audit in ensuring that our financial reporting fulfils the expectations that users rightly have of information provided by a listed, regulated entity. I and my fellow committee members were therefore fully engaged in the tender process for external audit services which was conducted during the year, in accordance with legal requirements. I engaged with all six firms who were part of the process and gained a good deal of additional insight into the current state of the audit market as a result.

After conducting a thorough process, with involvement from the whole Committee at all stages, Deloitte LLP were recommended as external auditors from the year ending 30 September 2026, and I look forward to engaging with them going forward. Our final decision required careful consideration and I would like to take this opportunity to thank the unsuccessful firms, including the current incumbents, for the enthusiasm and commitment with which they engaged with the process.

The Committee continues to appreciate the benefits which our strong and effective Internal Audit function brings to the business, and the confidence it provides over the systems of internal control. I was pleased to note the positive output of this year's internal review of effectiveness and offer the Committee's thanks to Sarah Mayne and her team for their diligence over the course of the year. I was pleased to support the renaming of Sarah's role from Internal Audit Director to Chief Internal Auditor, reflecting the importance of the position in the executive management of the organisation.

Following the year end the Committee considered the newly-updated Global Internal Auditing Standards. These have been reviewed against our current arrangements and I was pleased to note that only minimal changes were required to comply with the new standards.

The year also saw continuing change in the UK's corporate governance and reporting landscape. A new edition of the Corporate Governance Code was published, together with associated guidance. Most of its provisions will apply to us from our financial year ending 30 September 2026, and we have begun the process of considering its implications on the Committee and our governance structure more widely. As a first stage the Committee's operating procedures and terms of reference were reviewed, and I am pleased to confirm that only minimal changes were considered necessary.

We continue to monitor developments as firms in the sector and across industry more widely develop best practice in addressing the new Code, particularly matters relating to material controls reporting, which will apply to us from our 30 September 2027 year end.

We began the year in the expectation of new legislation in the corporate governance and reporting space, and a new mandate for the FRC, which was expected to become the Auditing, Reporting and Governance Authority ('ARGA'). These proposals were dropped by the outgoing UK Government, but in its first King's Speech, the new administration has committed to revisiting this area. The Committee will continue to monitor developments, evaluating potential impacts on our audit, reporting and governance arrangements.

For the coming year ending 30 September 2025, 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 our modelling approaches
- Ensuring that our control processes and internal audit capabilities continue to evolve alongside developments in the business and emerging best practice
- Monitoring planning activities for the external audit transition, which will take place following the completion of reporting on the 2025 financial year
- Analysing how the business might be impacted by new accounting, reporting and governance initiatives, particularly the detailed requirements of the 2024 Code and the new UK Government's developing corporate governance and auditing agenda, and ensuring we are properly positioned to respond to them

Tanvi Davda, the Chair of our Remuneration Committee, became a member of the Committee from 1 November 2024. I would like to welcome Tanvi to the Committee, and I look forward to her impact on these and other issues.

The 2024 financial year overall has been a particularly busy one for my colleagues on the Committee, but also a varied and interesting one. Accounting judgements have continued to be complex and nuanced, forming much of our workload, but the internal audit landscape, the external audit tender and developments in the regulatory landscape have also demanded active engagement. I thank my colleagues on the Committee for their efforts in meeting these challenges, and the wider Board for their support. I would also like to thank my colleagues across the business whose input has supported the Committee's work in the year and who have contributed to the creation of this Annual Report and Accounts.

The Committee and I are pleased with the way in which the Annual Report represents our business, its risk profile, financial position and results, and we commend it to shareholders for approval at the AGM in March 2025, along with the resolutions concerning the reappointment of KPMG, for their final year as external auditors, and the fixing of their remuneration.

Alison Morris

Chair of the Audit Committee

3 December 2024

B6.2 Operations of the Committee

At the year end the Audit Committee comprised three independent non-executive directors of the Company. Additionally, Hugo Tudor served as a member of the Committee until 6 March 2024, when he ceased to be considered independent. Following the year end Tanvi Davda became a member of the Committee on 1 November 2024, bringing the current membership to four.

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 2024 and are available on our corporate website. The Committee's key responsibilities include:

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

It also provides a forum through which the external auditor and the internal audit function 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 Chief Internal Auditor, 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 we operate required by the Code. 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 our 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, Chief Internal Auditor 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 with representatives of the external auditor without management present. Similar meetings, in the absence of management, are also held with the Chief Internal Auditor.

During the year ended 30 September 2024, the Committee met five times. Its principal activities were:

- Review of the annual and half-yearly financial statements to ensure these properly present the activities of the business in accordance with accounting standards, law, regulations and market practice
- Consideration of the appropriateness and application of our 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 annual and half-yearly financial reporting including their views on significant judgements, disclosures and the control environment
- Considering and concluding upon the annual report on the effectiveness of risk management controls, prepared by Internal Audit and the CRO
- Conducting a tender process in respect of external audit arrangements for the year ending 30 September 2026 and thereafter
- Review of other financial information published, such as Pillar III disclosures required by banking regulations
- Considering the level of assurance to be obtained in respect of climate-related disclosures published in the 2024 Annual Report
- Review of the terms of reference of the Committee, particularly in light of the 2024 Code, and recommendation of revised terms to the Board for approval
- Consideration of the potential impact of the ongoing developments in corporate governance reform, including the introduction of the 2024 Code, on our business and on the role and activities of the Committee
- Consideration of our readiness to address other forthcoming accounting and reporting changes which will affect the business
- Consideration of the results of the Internal Quality Assessment of the Internal Audit function carried out in the year
- Approval of the 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 throughout the business

From time-to-time, where there are major changes in accounting policies or audit arrangements in progress, the Chair of the Committee may seek engagement or 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 we adopt are suitable and whether significant estimates and judgements made by management are appropriate. In evaluating these financial statements for the year ended 30 September 2024 the Committee particularly considered:

- The levels of impairment provision against loan assets under IFRS 9 and particularly the uncertainties arising from the higher interest rate environment, the inflationary pressures of recent years, and the potential impact of both geopolitical events and the policies of the incoming UK Government on the economy and on our customers
- The calculation of interest income under the Effective Interest Rate ('EIR') method, particularly for buy-to-let mortgage assets
- The requirement for any impairment provision against the purchased goodwill carried in the balance sheet, based on the most recent forecasts for the businesses concerned
- The potential impact of legal and regulatory issues in respect of commissions on historical motor finance business and the appropriateness of related disclosures in the financial statements and the annual report more widely
- The valuation of the surplus in our defined benefit pension scheme
- The viability statement which we are required to make under the Code
- The capital and funding position, our forecasts for future periods, and their impact on the going concern assessment required in preparing the financial statements

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. These provisions are forward-looking in nature so are heavily dependent on the use of judgement and estimation techniques to evaluate both the likelihood and potential amount of loss. The current economic environment, although more stable than in previous years still features higher interest rates than seen for some time, with the costs of living and doing business still elevated by the inflation of recent years. Coupled with uncertainty as to the detailed policies of the new UK Government and the potential impact of global events more generally, this adds complexity to the consideration of ECL. Our 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. In order to satisfy itself that the process applied resulted in an appropriate level of provisioning, the Committee considered particularly: • The methods used to estimate probabilities of loss and potential losses, both mechanical and judgemental, including the new model for motor finance 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 our customers' credit prospects 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 our 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 69(a) to the accounts, the impairment charge for the year and the movements in provision for impairment are shown in notes 20 to 25. *Exposure to credit risk is discussed in note 63.*

Matter	Particular areas of focus
Interest income recognition	Income from loan balances is recognised 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 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 recognised on this basis is shown in note 4*
Goodwill impairment	An assessment of whether the carrying value of the acquired goodwill carried in our balance sheet, which is not subject to amortisation under IFRS, remains appropriate or whether any impairment has occurred is required at least annually. In considering whether any impairment of goodwill had occurred, the Committee particularly considered forecasts for the future cash flows of the acquired businesses and their reasonableness in light of current trading performance, together with our 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 our 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 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 our 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 our 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 higher interest rates and costs for our customers, the UK economy generally and our 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 our 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 senior management and our management information. *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 activities of the business, its financial position and its 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 our half-yearly financial report for the six months ended 31 March 2024 to the Board for approval.

The Committee's consideration of the financial statements for the year ended 30 September 2023, 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 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 our policy on the provision of non-audit services by the external auditor, which was reviewed in the year. In managing the external audit relationship, the Committee has had regard to the FRC Minimum Standard: Audit Committees and the External Audit, published in May 2023.

Audit tendering

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

KPMG were appointed as auditors, following a competitive tender process, with effect from the year ended 30 September 2016 at the AGM in February 2016. The financial year ended 30 September 2024 is the ninth reported on by KPMG. Michael McGarry has been the KPMG engagement partner since the year ended 30 September 2023 and the current year is the second for which Michael has held this responsibility. It is the policy of both the Group and the external auditor that no engagement partner should serve for more than five years.

We are not subject to a legal requirement to undertake an audit tender until ten years have elapsed, however, as reported in last year's Audit Committee report, the directors concluded that it would be beneficial to conduct a tender process for external audit services for the year ending 30 September 2026 during this financial year, to avoid any issues of independence for potential bidders. This process was duly completed, and is reported on below.

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

Notwithstanding the audit tender process carried out in the year, the Committee has considered the effectiveness of the external audit for the year ended 30 September 2024 and our 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 senior financial management without the external auditor present
- The Committee then addressed the evaluation, as appropriate, with the external auditors

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

The effectiveness review addressing the conduct of the 2023 audit, undertaken at the time of approval of the 2023 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 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 we operate were appropriate to our needs. As part of this exercise the Committee also considered the transparency report published by the external auditor, and the FRC's most recent Audit Quality Review ('AQR') audit inspection review on KPMG, published in July 2024.

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 2025 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 there is 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 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 to identify any matters which might impact on those firms' ability to tender for the group audit at any future date.

Fees paid to the external auditor

Fees paid to the external auditor are shown in note 9 to the accounts. The 'other services' provided by KPMG include only services required to be provided by external auditors by legislation or regulation, including the review of half-yearly financial information and profit verification for regulatory purposes.

Audit fees of group entities for the year, including fees for the review of the half-year report, have increased by 18.1% to £2,817,000 (2023: £2,385,000). 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 2024 should be no more than 70% of the average of the audit fees for 2021, 2022 and 2023. As this average was £2,329,000, the non-audit fee cap for the year was £1,630,000. Fees paid to KPMG, the external auditor, for non-audit services, as defined by the Regulation, during the year were £200,000 (2023: £192,000), well within the cap. All these fees were for services related to the external audit, as described above.

We actively consider other providers for the type of non-audit services typically provided by accounting firms. We maintain on-going relationships relating to tax, remuneration and regulatory advice with firms other than the external auditor's firm and consider discrete projects on a case-by-case basis. We 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 external audit and related fees can be analysed as shown below:

	2024 **£000**	2023 £000
Auditors – KPMG	**-**	-
Other big four firms	**1,177**	1,148
Other firms	**42**	-
	1,219	1,148

We maintain relationships with all the major accounting firms, which have been enhanced in the course of this year's tender process and consider a variety of providers for these types of assignment.

Audit tender

As reported in last year's annual report, during the year ended 30 September 2023 the Committee resolved to hold a tender process for external audit services for the year ending 30 September 2026 and thereafter, and had considered the planning for the process, approved a structure and an outline timetable.

In designing the process the Committee took 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. The tender was conducted on a price blind basis with firms being ranked before any information on cost was provided to the committee members.

During the current year the process took place and involved all six of the firms forming the FRC's designated 'Tier 1'. As a preliminary to the process, the Committee considered whether any form of joint audit arrangement might be appropriate, but concluded that the very centralised nature of our corporate structure, administration processes and IT systems made it likely that such an approach would not promote an effective audit.

The process was supervised by the Chair of the Committee, who ensured that all members were involved in the progress of the project throughout. All six bidding firms were invited to present sessions to the Committee and other board members during the process on unrelated topics, to increase members' familiarity with these organisations.

The principal stages of the formal process were:

- Shareholder input was specifically sought through our programme of investor meetings and comments relayed to the Committee
- The two smaller firms were asked to provide a detailed statement of qualifications, which they then discussed with the Chair of the Committee. The Committee reviewed the statements, together with the Chair's assessment and the FRC's annual Audit Quality Assessments of the firms and then considered the merits of appointing either firm, considering their current experience and resourcing set against the size, complexity and regulatory exposure inherent in our business
- Four firms were asked to participate in the main phase of the tender process, in which bidders were provided with access to management information, and were invited to meet with the Chair of the Committee and senior financial, risk and operational management to develop their understanding of our business and the significant areas for its audit
- Bidders were asked to provide references from firms where they had a current audit relationship at both a senior management and audit committee level. Meetings with the referees were conducted by the CFO and the Chair of the Committee who reported their conclusions to the other committee members
- Each firm was asked to submit a written proposal setting out how they would approach the provision of external audit services, demonstrating their understanding of our significant audit and business risks and our regulatory environment and explaining how they would ensure an effective audit
- Firms were also each invited to a challenge session with a panel comprising committee members and other non-executive directors. Firms set out the most significant factors in their approach and were questioned in detail by the panel
- Committee members were provided with copies of the most recent AQR review on each firm for consideration

The results of these processes were considered by the Audit Committee at its meeting in September 2024. While recognising that all the bidding firms had factors recommending them, the Committee decided, on balance, to recommend the appointment of Deloitte LLP to serve as external auditor with effect from the year ending 30 September 2026. The Board accepted the recommendation of the Committee, subject to shareholder approval at the 2026 AGM.

KPMG will remain in office for the year ending 30 September 2025, as noted above.

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 management'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

Internal Audit receives its authority through the mandate granted by the Audit Committee. The primary purpose of Internal Audit is to help the Board and senior management to protect the assets, reputation and sustainability of the Group. It does this by providing independent, risk-based and objective assurance, advice, insight and foresight and challenging and influencing senior management to improve the effectiveness of governance, risk management and internal controls.

Internal Audit forms the third line of defence in our 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 2024, with an additional review in November 2024, after the year end, to address the introduction of the new UK Internal Auditing Code of Practice and Global Internal Auditing Standards in 2025. A copy of the current Charter is available in the Governance section of our corporate website.

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

The function is led by the Chief Internal Auditor, Sarah Mayne, who reports directly to, and has a close working relationship with, the Chair of the Committee. She attended all meetings of Performance ExCo and ERC as an observer and became a member of those committees on 1 October 2024, after the year end.

Operations

In September 2024, the Committee considered and approved the annual IAP for the year ending 30 September 2025, 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 2024 was approved before the beginning of the year, with the plus six half-year review of the IAP completed by the Committee in March 2024, when a small number of changes were approved.

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

The Chief Internal Auditor 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 2025, the Chair of the Committee met with the Chief Internal Auditor 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 areas; management of financial crime; change management; and IT.

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 Chief Internal Auditor 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 2024, 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 Chief Internal Auditor 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 approves the budget for Internal Audit and assesses the resource plan on an ongoing basis, to ensure that the internal audit function has sufficient and appropriately skilled resources to complete the plan and that the ongoing capabilities of Internal Audit remain strong, to support future assurance. Alongside the 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 Chief Internal Auditor that such skills would complement and develop those of the internal team. Provisions for these arrangements were reviewed in light of the audit tender process described above, and it was concluded that any independence issues could be appropriately managed, given the timescales involved.

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 2024, the Committee considered the output of an internally produced effectiveness review, following the external quality assessment ('EQA'), undertaken by an independent specialist firm during 2023.

The internal effectiveness review, which was supported by feedback from stakeholders across our businesses, concluded that the function was operating effectively in accordance with required standards.

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.

In January 2025 the existing CIIA standards will be replaced by new Global Internal Audit Standards. To ensure Internal Audit is able to meet the new requirements, a gap analysis and action plan has been completed and reviewed by the Committee. This will be monitored through to completion, with the first assessment of compliance with the new requirements to be undertaken as part of the next internal effectiveness review in May 2025.

B7. Remuneration Committee

This report covers the activities of the Remuneration Committee for the year ended 30 September 2024 and sets out the remuneration details for the executive and non-executive directors of the Company. It has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended, and the principles of the Code.

This report consists of the Statement by the Chair of the Committee B7.1 and the Annual Report on Remuneration B7.2. A summary of the Remuneration Policy approved at the Annual General Meeting held on 1 March 2023 is included 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

Following last year's results announcement, I became Chair of the Remuneration Committee taking on the role from Hugo Tudor who had been Chair since June 2018. My thanks and that of the Committee go to Hugo for his leadership over a period of significant change for our remuneration policy. I would also like to express my personal gratitude to Hugo and the Committee for their support during my first year as Remuneration Committee Chair.

As incoming Chair I was pleased that the results of this year's committee evaluation reiterated last year's external evaluation findings – that the Committee's management, composition and the information provided to it were excellent and that all these factors enable the Committee to discharge its mandate effectively. The evaluation outcomes provide reassurance of our alignment to the UK Corporate Governance Code.

The Committee remains confident that, within the regulatory framework that applies at Paragon, the remuneration structure in place supports the delivery of our business strategy and appropriately rewards a management team that is committed to delivering consistently strong performance while ensuring a sustainable business.

Remuneration philosophy

Our remuneration philosophy remains unchanged in seeking to recognise fairly the contribution of all employees. We have for many years been an accredited Real Living Wage employer and when the Committee undertook its annual review related to the fair pay agenda this year it re-confirmed that we are a fair pay employer.

Alignment with shareholder interests on an all-employee basis as well as for the executive directors, remains important to our business as a whole. Across the all-employee Sharesave schemes, as at the end of the financial year, approximately 64% of employees held Sharesave options. Both executive directors continue to hold personal shareholdings materially above our shareholding policy requirements with 20% of their salary also paid in shares.

Additional information on fair pay is set out in Section B7.2.4.

Business performance and variable pay earned in the year

The year ended 30 September 2024 was a year of strong financial performance against a set of stretching targets. Accordingly, variable pay awards for executive directors reflect the exceptionally strong performance during the year. Both executive directors are being awarded an annual bonus of 95.7% of maximum opportunity. The balanced scorecard assessment shown later in this report records and expands on the excellent performance in all areas and provides the basis for this award.

The Performance Share Plan ('PSP') awards that are due to vest in December 2024 will vest at 95.21% of maximum. This also reflects strong performance over the period including TSR performance of over 60%, being above the upper quartile of the peer group. Underlying EPS was materially above the threshold for maximum vesting, being up 70.5% across the three years, and this growth translated to a 54.8% increase in our dividend to 40.4 pence per share.

The level of vesting is reflective of the wider shareholder experience as each of our profit, RoTE, earnings per share and dividend returns have reached record levels during 2024. In respect of both absolute and relative TSR, only one firm of the peer group, in addition to Paragon, produced over 50% TSR across the three-year period, with eight of the comparators actually delivering a negative outcome over the same period. The risk portion of the PSP, which considers both key elements of our risk appetite, and strategic risk across the medium term, provided a strong outturn for each element. The customer and people metrics also performed in the top quartile representing the delivery of good customer outcomes as well as our focus on people and culture.

The full details of the remuneration paid to the executive directors in respect of the financial year and the basis for its determination are set out in Section B7.2.

Fixed to variable pay ratio: regulatory bonus cap

The regulatory requirement for a 2:1 ratio between variable and fixed pay in bank remuneration was removed in October 2023, and whilst a cap continues to be a requirement, it is now for each firm to determine the most appropriate ratio for their own business. The Committee will therefore ask shareholders at our forthcoming AGM to formally agree to return the responsibility for setting an appropriate ratio between fixed and variable pay for all employees classed as Material Risk Takers ('MRTs') under the PRA and FCA remuneration rules to the Committee. This will provide the Committee with flexibility, should it be required, to address recruitment and retention objectives as the employment market evolves. The removal of the 2:1 cap has no impact on the executive directors, as the relationship between their fixed and variable pay continues to be governed by the policy agreed at the AGM in 2023.

Remuneration for the year ending 30 September 2025

The Committee is satisfied that the directors' remuneration policy approved at the 2023 AGM has operated as intended and no changes are being made to the structure of executive director remuneration for the year ending 30 September 2025. Salaries for the executive directors have been increased by 3%, which is in line with the workforce average.

Work of the Committee

Since assuming the role of Committee Chair, I have met with a number of our larger shareholders and intend to meet more in the coming year. I have also met with our People Forum to discuss both executive director and all-employee remuneration. Both of these interactions contribute to ensuring that the views and reflections of stakeholders are incorporated into the Committee's deliberations and decision making.

This year the Committee has considered amongst other items:

- executive directors' remuneration
- senior managers' remuneration
- the Chair of the Board's remuneration
- wider workforce remuneration
- discretionary share plans
- this Directors' Remuneration Report

A range of other governance matters were also considered.

At the 2026 AGM, a new directors' remuneration policy will be put to shareholders with detailed proposals for any changes to the current policy that the Committee consider necessary. Any proposals will be discussed with shareholders and other stakeholders during 2025, should the proposed changes be of a substantive nature. As part of that policy review, the Committee will also look at the constituents of the peer group for the total shareholder return element of the PSP given the ongoing consolidation in the listed financial services sector.

Conclusion

Our remuneration policy continues to be consistently applied, with the outcomes for the executive directors in the year reflecting Paragon's strong absolute and relative performance. I want to take this opportunity to thank those shareholders who have met with me this year for their valuable input, and to thank all our shareholders for their continued support.

I trust that shareholders will continue to be supportive of the operation of our remuneration approach during the year and vote in favour of both the resolution to approve the Directors' Remuneration Report set out in Section B7.2 and the resolution to remove the 2:1 bonus cap for MRTs, which are being put to the AGM in March 2025.

Tanvi Davda
Chair of the Remuneration Committee
3 December 2024

B7.2 Annual Report on Remuneration

Contents of the annual remuneration report:

- The Remuneration Committee, key responsibilities and advisers (B7.2.1)
- Directors' remuneration for the year ended 30 September 2024 (B7.2.2)
- Application of the remuneration policy for the year ending 30 September 2025 (B7.2.3)
- Other information including Fair Pay (B7.2.4)

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 beyond buy-to-let	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): Robert East (Chair of the Board), Tanvi Davda, Alison Morris, Hugo Tudor, Graeme Yorston and Zoe Howorth. Tanvi Davda became Chair of the Committee on 7 December 2023, succeeding Hugo Tudor, who stepped down from the Committee on 6 March 2024.

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 and 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. This includes all members of the Executive Committee including the Chief Internal Auditor and the Chief Risk Officer
- Reviews workplace remuneration and related policies and the alignment of incentives and rewards with culture; and takes those matters into account when setting the remuneration policy for executive directors
- Considers the group-wide Internal Remuneration Policy for all employees and considers and approves the identification of the MRTs under financial services regulatory remuneration rules

Attendees

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

Advisors

When deciding the remuneration for the year for executive directors and senior management the Committee considered advice from:

- Independent advisors – PricewaterhouseCoopers LLP ('PwC')
- The CEO, the CFO, the Chair of the Risk and Compliance Committee, the Chief People Officer, the Chief Risk Officer and the External Relations Director

Independent advisors: additional information

Appointment process – PwC were 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 £106,997 (including VAT) on a part fixed-fee and a part time and materials basis.

Other services – PwC provided the business with other professional services during the year including regulatory support and support with our IRB implementation.

Statement of voting at Annual General Meeting

The voting outcome for the resolution to approve the Annual Report on Remuneration at our AGM held on 6 March 2024, and the resolution to approve the Director's Remuneration Policy at the 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 (2024)	166,004,920	95.81%	7,256,290	4.19%	173,261,210	2,371,184
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 2024

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. It also sets out the shareholding requirements expected of executive directors.

Single total figure of remuneration and supporting disclosures

Single total figure of remuneration for executive directors

	Note	N S Terrington	R J Woodman	Total
Year ended 30 September 2024		**£000**	**£000**	**£000**
Fixed remuneration				
Salaries	*(a)*	**949**	**600**	**1,549**
Allowances and benefits	*(b)*	**22**	**15**	**37**
Pension allowance	*(c)*	**76**	**48**	**124**
Total fixed remuneration		**1,047**	**663**	**1,710**
Variable remuneration				
Bonus	*(d)*	**890**	**562**	**1,452**
Long-term share awards	*(e)*	**1,707**	**1,075**	**2,782**
Total variable remuneration		**2,597**	**1,637**	**4,234**
Total		**3,644**	**2,300**	**5,944**

	Note	N S Terrington	R J Woodman	Total
Year ended 30 September 2023		**£000**	**£000**	**£000**
Fixed remuneration				
Salaries	*(a)*	921	582	1,503
Allowances and benefits	*(b)*	20	15	35
Pension allowance	*(c)*	74	47	121
Total fixed remuneration		1,015	644	1,659
Variable remuneration				
Bonus	*(d)*	876	553	1,429
Long-term share awards	*(e)*	1,396	880	2,276
Total variable remuneration		2,272	1,433	3,705
Total		3,287	2,077	5,364

Notes to the single total figure table for executive directors

a) Salaries

20% of each executive directors' salary is 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

This includes private health cover and a company car allowance (£10,000 to £12,000). Also included is the reimbursement of: (i) costs associated with the purchase of shares in respect of salary as shares arrangements and (ii) certain travel costs incurred in connection with the performance of executive director duties which constitute a taxable benefit in kind. The amounts are those that HMRC treat as taxable together with an allowance provided to cover the tax liability. The amount will vary with the amount of brokerage costs / travel undertaken by the executive director.

c) Pension allowance

Both executive directors received a cash allowance in lieu of pension of 10% of cash salary.

d) Bonus

Maximum bonus opportunity during the year was 98% of salary (2023: 98%), in line with the remuneration policy. Based on the performance measures set out below, a bonus of 95.7% of maximum opportunity was awarded. The Committee determined that the formulaic outcomes under the bonus framework were fair and appropriate because 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.

					Delivered in		
Executive director	**Salary**	**Maximum opportunity**	**Percentage award**	**Total bonus**	**Upfront cash**	**Upfront shares[1]**	**DSBP awards[2]**
	£000	**% of salary**	**% of max**	**£000**	**£000**	**£000**	**£000**
N S Terrington	949	98.0	95.7	**890**	402	402	86
R J Woodman	600	98.0	95.7	**562**	254	254	54

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

2. Bonus deferred under the Deferred Share Bonus Plan ('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 after vesting.

Balanced scorecard assessment

Measure	Weighting	Threshold	Target	Maximum	Actual	Outcome
Financial performance	**60%**					**60%**
Operating profit	24%	£249.1m	£273.7m	£286.0m	£292.7m	24%
RoTE (underlying)	24%	17.0%	19.2%	20.3%	20.3%	24%
NIM	6%	2.79%	3.06%	3.11%	3.16%	6%
Cost:income ratio	6%	40.0%	38.2%	37.2%	36.1%	6%

Measure	Weighting	How measured	Outcome
Risk	**20%**	Qualitative assessment by the Remuneration Committee of:	**17.7%**
		• Strong credit performance across all portfolios • Capital and liquidity measures all significantly within risk appetite • Operational risk covers numerous areas including operational losses, IT security, data protection and third party suppliers and the majority of metrics were within risk appetite for the whole period	

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			95.7%

	Individual targets	Actual performance
Nigel Terrington	Strong leadership to deliver the business plan and financial performance, within agreed risk appetites, upholding our values and always delivering good customer outcomes	• Record operating profit before tax of £292.7 million increased by 5.4% from 2023 • Savings expansion to £16.3 billion • £2.0 billion TFSME repaid early in 2024 financial year ahead of 2025 maturity • Tight management of costs with strategies deployed to avoid material inflation • Consumer Duty delivered on time and with full compliance
	Continue with technology development to digitalise the business for our customers, with improved service delivery, faster decision making and improved cost efficiencies	• Significant activity with the delivery and launch of the new buy-to-let origination platform • IBMi migration delivered, resulting in over 90% of core systems now being in the cloud • Machine learning actively used across the business and Gen AI pilots in progress with 100 software licences acquired for development and testing purposes
	Continue to develop the savings strategy, expanding the addressable market and over time, utilising technology, including open banking, to broaden the customer reach	• Very strong savings deposit growth delivering £3.0 billion in excess of plan enabling good liquidity management and supporting NIM expansion • Enhanced optionality through third-party relationships, with £3.8 billion of the total savings balances sourced through external platforms (2023: £2.9 billion) • Various awards for savings products including Savings Champion Award for customer service
	Continue to progress the sustainability strategy by supporting customers to meet their climate change requirements and obligations	• Operational footprint emissions reduction from 2019 baseline reached 48% (2023: 42%) • Further product development including expansion of the development finance Green Homes Initiative by £100.0 million during the year • New EPC rated A to C advances continued to deliver month-on-month improvements in stock. 53.4% of new mortgage advances in the year were EPC rated A to C (2023: 49.9%)
	Continue to build a succession plan pipeline for executive committee roles	• Succession planning firmly established for executive committee and other senior leadership roles with internal replacements developed for known near term departures • Seamless and successful transition on the departure of the Managing Director – Mortgages • Development and internal promotion of Savings Director onto executive committees

	Individual targets	Actual performance
Richard Woodman	Strong leadership to deliver the business plan and financial performance, within agreed risk appetites, upholding our values and always delivering good customer outcomes	• Record operating profit before tax of £292.7m increased by 5.4% from 2023 • Savings expansion to £16.3 billion • Strong liability management saw £2.0 billion of TFSME repaid in the financial year • Product pricing tightly managed to maintain growth and ensure delivery of good customer outcomes
	Maintain appropriate capital, liquidity and funding buffers to allow the business to both support its customers and other stakeholders in stress and enhance capital efficiency	• Strong capital buffers maintained. CET1 ratio of 14.2% (2023: 15.2%) • Continuing share buy-back programme to optimise shareholder equity (programme of up to £100m for the year) • Enhanced modelling of savings customer behaviours undertaken to support ILAAP completed in the year
	Further develop our thinking on the risks of climate change and embed the management of climate-related risks within our strategic plans, risk appetites and disclosures	• Risk and opportunity assessment undertaken across all portfolios in support of strategic overview of climate change • Decarbonisation assessment for mortgage and motor finance portfolios delivered to the Board as part of ICAAP • Independent benchmarking review completed. The review considered: o approach to calculating and reporting financed emissions o methodology and disclosure frameworks to assess assurance readiness o target setting (decarbonisation assessment) approach
	Broaden funding options, actual and contingent, including the addition of a Covered Bond capability	• Covered Bond documents prepared and with the regulator for review • Moody's ratings of Baa3 issued for the Company and Baa2 for Paragon Bank • Available contingent funding utilising mortgage assets prepositioned at the Bank of England more than doubled, from £2.4 billion at 30 September 2023 to £5.2 billion at 30 September 2024 • Repo facilities with approved counterparty banks utilised regularly in order to test and maintain the availability of credit lines. Two new counterparties added in the year
	Prioritise and embed IRB to boost risk capability and longer-term capital efficiency	• Capital planning reflects macro-level implications of IRB accreditation as well as at a product level • Individual decisions increasingly being based on an IRB outturn (for longer-dated products) • IRB programme continues to develop in line with regulatory feedback following extensive engagement during the financial year

e) Share awards: Paragon Performance Share Plan

The amount shown in the single figure table in respect of share awards represents the value of those awards for the performance period ended 30 September 2024, as set out below.

	Vesting in year to 30 September 2024		Vesting in year to 30 September 2023	
	N S Terrington	R J Woodman	N S Terrington	R J Woodman
Grant date	**Dec 2021**	**Dec 2021**	**Dec 2020**	**Dec 2020**
Shares granted	208,611	131,325	236,661	149,046
Vesting percentage	95.21%	95.21%	96.41%	96.41%
Shares vesting	198,618	125,034	228,164	143,695
	£	**£**	**£**	**£**
Share price at vesting	7.614[1]	7.614[1]	5.320[2]	5.320[2]
Dividend equivalent per share	0.981	0.981	0.801	0.801
Value per share at vesting	8.595	8.595	6.121	6.121
Value of award at vesting	**1,707,181**	**1,074,705**	**1,396,592**	**879,557**
Value of award at vesting attributable to share price appreciation only	434,437	273,487	174,774	110,070

1. The PSP value for the year ended 30 September 2024 has been determined using the average closing share price for the three months ended 30 September 2024 as an estimate. The actual value of the awards will not be finalised until the share price on the vesting date in December 2024, following the Preliminary Results announcement, is known.

2. The PSP value for the year ended 30 September 2023 has been restated based on the market value of the shares at the vesting date, 6 December 2023.

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 remuneration policy. During this period the executive directors will continue to be entitled to dividend equivalents.

The vesting value in 2024 reflected a 40.3% increase in the share price between grant and vesting. The Committee considered the impact of share price movement over the period between grant and vesting to be consistent with the underlying performance, including strong TSR performance (second in our comparator group) and EPS at over 40% above the maximum target. The Committee concluded that the increase in share price did not constitute a windfall gain.

The determination of the vesting outcomes for the December 2021 grant is described below. The determination for the December 2020 grant was set out in the Directors' Remuneration Report for the year ended 30 September 2023.

Awards vesting in respect of the year ended 30 September 2024

Awards granted in December 2021 under the PSP are subject to performance conditions measured over the three financial years ended 30 September 2024. 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 171.38%.

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

PSP grant in December 2021: financial performance conditions

	Weighting	Threshold vesting for 25% of maximum award	Maximum vesting	Actual performance	Vesting outcome
Relative TSR	25%	Median performance (being (21.60)%)	Upper quartile performance (being 42.12%)	Above upper quartile performance (being 63.17% and ranked second out of 14)	25%
Underlying basic EPS	25%	63.0 pence	72.0 pence or more	101.1 pence	25%

PSP grant in December 2021: non-financial performance conditions

	Weighting	Actual performance		Vesting outcome
Risk	12.5%	50% of the risk metric is determined by the Committee based on an assessment by the CRO of five key elements of our risk appetite: regulatory breaches, 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 firmly within risk appetite across all our loan portfolios for the overwhelming majority of the year • 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 throughout most of the year • No breaches of risk appetite throughout the period. Surplus capital has been maintained and managed effectively, with a share buy-back programme in place for part of last three financial years		10.5%
	12.5%	Based on a strategic risk assessment by the Committee reflecting the management of risk with regard to the delivery of our medium-term strategy noting that over the vesting period: • Strong capital ratios with earnings-led CET 1 accretion stronger than growth in capital requirements and dividend • Building a diversified funding profile is important and significant progress has been achieved to date. Deposit balances from platforms increased to £3.8 billion; strong liquidity growth and the building of contingent funding capacity (currently £5.2 billion) • Earnings have diversified, with the Commercial Lending division contribution increasing from £76.4 million in 2021 to £88.3 million for the 2024 financial year • Extensive succession plans in place, demonstrated by the internal appointment to the role of Managing Director - Mortgages within days of the former incumbent resigning • Pension plan moved from £10.3 million deficit at 30 September 2021 to a £22.2 million surplus at 30 September 2024		12.5%
Customer	12.5%	Customer insight feedback on key product lines	• NPS scores were maintained or improved across the period with the majority of scores being above the industry average • Customer satisfaction was 79% which was above the industry average of 78%	10.87%
		Customer complaints and associated customer outcomes	• Complaints consistently below risk appetite tolerance • Complaints resolved within eight weeks was on average 96.6%	

PSP grant in December 2021: non-financial performance conditions

	Weighting	Actual performance		Vesting outcome
People	12.5%	Employee engagement	• Employee engagement excellent across the whole period measured using employee surveys, including the independent all-employee survey for Investors in People ('IiP') which achieved scores at or above the IiP average, and feedback from leavers and joiners	11.34%
		Voluntary attrition compared to the industry averages	• Attrition data compared to the industry average for financial services remained positive in the period, at or below the average	
		Gender diversity of senior management	• Gender diversity above the target level set in 2021 throughout the performance period with the focus on increasing the number of female senior appointments	

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 business were satisfactory given the level of vesting. In respect of both these points the Committee concluded that the vesting level was appropriate for all participants.

Awards granted during the year ended 30 September 2024

On 15 December 2023 the following awards were granted as part of the executive directors' variable remuneration in respect of the year ended 30 September 2023. These awards are designed to fulfil the majority of the regulatory requirement that 60% of executive directors' variable remuneration is 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 118% of salary in line with the Policy.

Executive director	Salary £000	Percentage grant	Face value of grant £000	Number of shares
N S Terrington	921	118%	1,087	265,164
R J Woodman	582	118%	687	167,539

The value of these awards will be disclosed in the single figure table for the year ending 30 September 2026, at the end of the performance period.

These awards have a three-year performance period, from 1 October 2023 to 30 September 2026 and are 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 our results for the year ended 30 September 2023, 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 £4.678, with the prices of the tranches which become exercisable in the four succeeding years being £4.388, £4.116, £3.862 and £3.622 respectively reflecting the dividend yield adjustment.

These awards are subject to the following performance conditions.

		Financial measures	
Performance measure	**Weighting**	**Threshold vesting for 25% of maximum award**	**Maximum vesting**
Relative TSR	25.0%	Median performance	Upper quartile performance
Underlying Basic EPS	25.0%	80.0 pence	100.0 pence or more

Non-financial measures

Measures	**Weighting**	
Risk	20.0%	50% weighting is determined by the Committee based on an assessment by the CRO of the six key elements of our 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 our medium-term strategy
Climate	10.0%	Consideration will be given to (i) customer insight feedback on key product lines and (ii) customer complaints relative to risk appetite levels Consideration will be given to i) operational footprint emissions reduction ii) financed emissions decarbonisation assessments; iii) development of sustainable products and iv) education and engagement
Customer	10.0%	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) 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. The other metrics are assessed based on a number of elements, as set out above, which 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 2024			Year ended 30 September 2023		
	Fees	Benefits[1]	Total	Fees	Benefits[1]	Total
	£000	£000	£000	£000	£000	£000
Chair of the Board						
R D East	**280**	**2**	**282**	255	2	257
Non-executive director						
T P Davda[2]	**100**	**-**	**100**	80	-	80
P A Hill	**104**	**-**	**104**	100	-	100
Z L Howorth[3]	**83**	**-**	**83**	27	-	27
A C M Morris[4]	**124**	**-**	**124**	103	-	103
B A Ridpath	**83**	**-**	**83**	80	-	80
H R Tudor[5]	**81**	**-**	**81**	117	-	117
G H Yorston	**83**	**-**	**83**	80	-	80
Total	**938**	**2**	**940**	842	2	844

[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.

[2] T P Davda became Chair of the Remuneration Committee on 7 December 2023.

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

[4] A C M Morris became Senior Independent Director on 14 August 2023.

[5] H R Tudor ceased to be Senior Independent Director on 14 August 2023 and Chair of the Remuneration Committee on 7 December 2023 and ceased to be a member of all board sub-committees on 6 March 2024.

Payments for loss of office

No payments for loss of office were made during the year ended 30 September 2024.

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 2024 (including those held by their connected persons) were:

	N S Terrington Number	R J Woodman Number
Unvested awards subject to performance conditions		
PSP	555,495	350,386
Unvested awards not subject to performance conditions		
DSBP	120,240	74,065
Sharesave	4,245	4,245
Total unvested awards	679,980	428,696
Vested but unexercised awards		
PSP[1]	717,747	451,974
DSBP	-	-
Total vested but unexercised awards	717,747	451,974
Shares beneficially held		
Acquired as salary in shares / RBA or regulatory related annual bonus requirements and subject to restrictions related to disposal	86,675	55,248
Not subject to restrictions on disposal	1,237,483	535,867
Total shares beneficially held	1,324,158	591,115
Total interest in shares	**2,721,885**	**1,471,785**
Awards exercised in the year		
DSBP	243,291	82,099
Total awards exercised in the year	**243,291**	**82,099**

[1] For the purposes of the table above, the awards granted in December 2021 are assumed to be vested but unexercised in respect of the percentage which will vest, 95.21%, 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 2024, which consist entirely of ordinary shares, beneficially held, were as follows:

	2024
R D East	**10,000**
T P Davda	**6,019**
P A Hill	**2,907**
Z L Howorth	**6,541**
A C M Morris	**4,168**
B A Ridpath	**4,358**
H R Tudor	**59,790**
G H Yorston	**8,642**

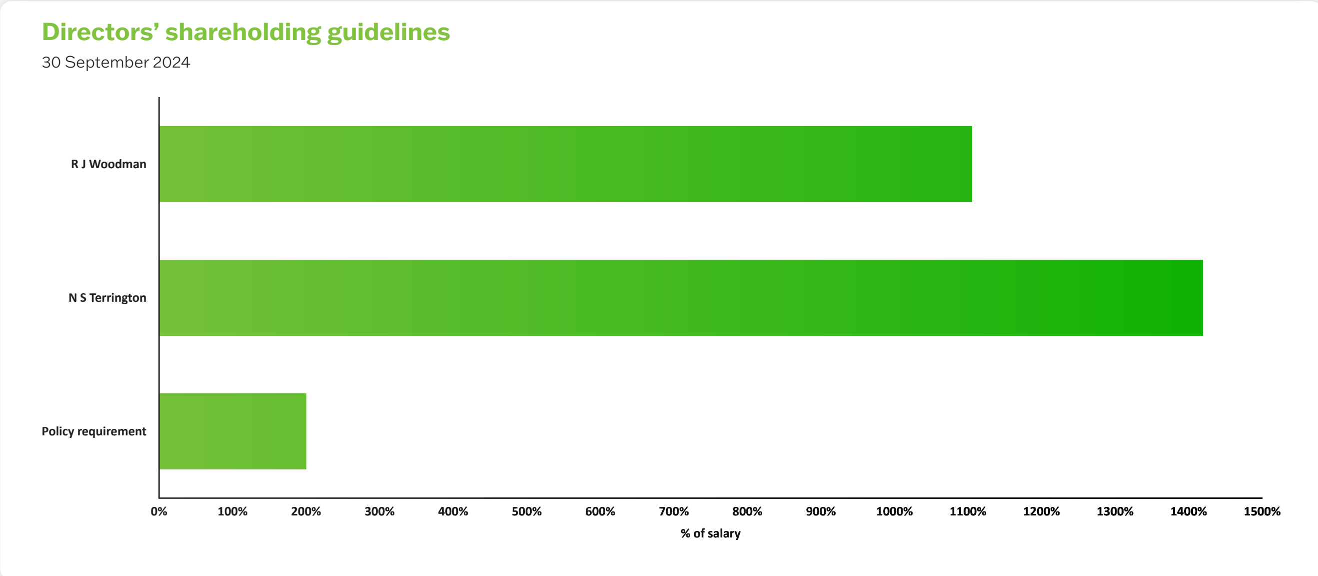
As at 28 November 2024, the last practicable date prior to approving this Report, the Company has not been advised of any changes to the interests of the directors and their connected persons as set out in the tables above.

Share ownership guidelines

Executive directors are 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.

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 value of shares is calculated on a net of income tax and national insurance basis where relevant.

The chart below compares the executive directors' holdings at 30 September 2024 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 2024.



At 30 September 2024, 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 2025

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 2025 in the same way as it was applied in the preceding year.

Executive directors

Fixed pay

The salaries of the executive directors, set out below, were increased by 3% from 1 October 2024. This increase was in line with the average increase applicable to the wider workforce.

		Salary 1 October 2024	Salary with effect from 1 October 2023
		£000	£000
N S Terrington	Salary – paid in cash	782	759
	Salary – paid in shares	195	190
Total salary		**977**	**949**
R J Woodman	Salary – paid in cash	494	480
	Salary – paid in shares	124	120
Total salary		**618**	**600**

Delivery of fixed remuneration, pension allowance and benefit entitlements for the year ending 30 September 2025 are as described above for the year ended 30 September 2024.

Annual bonus

In line with Policy, the bonus opportunity for the financial year ending 30 September 2025 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 our 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 2025 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 2024 are expected to be made in December 2024. 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.

Prior to granting the PSP in December 2024, 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 2023, the Committee does not consider that any adjustment is needed; however, this will be kept under review. In line with previous years, the Committee will take into account the lack of dividends (or dividend equivalents) in determining the applicable share price on grant.

The intended performance conditions and weightings are set out below.

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

Financial metrics

Performance measure	Weighting	Threshold vesting for 25% of maximum award	Maximum vesting
Relative TSR	25%	Median performance	Upper quartile performance
Basic EPS	25%	104 pence	125 pence or more

Non-financial metrics

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 our 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 our medium-term strategy
Climate	10%	Consideration will be given to i) operational footprint emissions reduction ii) financed emissions decarbonisation assessments; iii) development of 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
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%.

Customer metric

As the FCA Consumer Duty requirements came fully into force from July 2024, the condition hurdle that is in place for the grants made in 2022 and 2023 is removed for the 2024 grant as this regulation has moved from the implementation phase to being part of business-as-usual.

TSR metric

The TSR metric is unchanged, except that the comparator group no longer includes Virgin Money UK PLC following its delisting on 1 October 2024.

EPS metric

The underlying EPS targets have been updated using the financial forecasts for the period beginning on 1 October 2024. These detail the plans for the next two years with a longer-term forecast covering a five-year period, and include detailed income forecasts. These forecasts have been approved by the Board and have been compiled taking into consideration cash flow, dividend cover, encumbrance, liquidity and capital requirements as well as other key financial ratios throughout the period. These forecasts are rigorously challenged during the Board approval process, and the Committee then uses the outcome from that process to determine the EPS target and ensure it is stretching across the LTIP's three-year performance period.

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 increases set out below approved to take effect from 1 October 2024. Both the Chair and base non-executive director fee will be increased by 3% in line with the rate applied for the executive directors and the average of the wider workforce.

Each non-executive director receives a base annual fee of £75,705 (2023: £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.

	Fee with effect from	
	1 October 2024	1 October 2023
	£000	£000
Chair of the Board	**289.0**	280.5
Non-executive directors		
Senior independent director (when also a committee chair)	**125.7**	123.5
Other committee chairs	**105.7**	103.5
Other non-executive directors who are committee members	**85.7**	83.5
Other non-executive directors	**75.7**	73.5

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 our business. It includes a description of the overall approach to employee remuneration, 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

We are committed to rewarding all employees fairly for their contribution, whilst ensuring they are motivated to always deliver the best outcomes for customers. This remuneration philosophy reflects our culture, vision and values and supports our purpose whilst being aligned both to our long-term strategy and to helping to deliver fair customer outcomes.

We are a fair pay employer and for several years the Committee has undertaken an annual review of various data related to the fair pay agenda, to confirm that this continues to be the case. This is reflected in our:

- Commitment to pay all employees at least the 'Real Living Wage' set by the Living Wage Foundation. During the year this was £12.00 per hour outside London, equivalent to £23,400 per annum for full-time workers. This benchmark increased to £25,570 per annum in October 2024, when we increased our minimum wage to £25,750
- Payment of Profit Related Pay ('PRP') to around 87% of the workforce
- Making share schemes available at both an all-employee and senior management level which align employees' interests with those of shareholders
- Alignment between executive pay and that of other senior managers as well as other employees
- People Forum which provides an additional arena for discussion and feedback on executive and all-employee remuneration structures

This section provides further information on all of these matters. In addition, our commitment to fair pay is reflected in our approach to various sustainability-related matters which support and enhance fair pay, as detailed in Section A6.

How our pay principles aligned to the Code during the year ended 30 September 2024

Principle	Application	Example
Clarity	The executive director and all-employee 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 business and consist of salary; pension; variable cash bonuses; share schemes and benefits Discussion on executive remuneration and how it aligns to the workforce forms part of the regular People Forum discussions with the committee chair
Simplicity	Straightforward remuneration structures apply to all levels of our employees The Committee has sought to ensure that the Directors' Remuneration Policy and outcomes which result from it are easy to understand for both participants and shareholders	
Proportionality	Bonus awards reflect annual performance, while 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, providing 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	The current Policy in full is set out in Section B7.3 of the Annual Report and Accounts for 2022
Alignment to culture	The demonstration of our values and strong culture are reflected throughout our pay structure. This alignment applies when determining incentive outcomes for all employees as well as through our commitments to EDI policies and the Living Wage Foundation The current Remuneration Policy is fully aligned with our pay principles	Demonstration of our 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 We have paid at least the Living Wage Foundation rate to all employees for a number of years as part of our commitment to workforce equality and we are committed to reducing our 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 our 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 for the annual and long-term incentive plans are tested annually by the Committee. The Committee has discretion to override formulaic outcomes Both annual bonuses 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 business on a regular basis. In November 2023 and November 2024 the Forum met with the Chair of the Committee to engage on and explain the process of determining executive remuneration, and to discuss remuneration across the wider workforce. These meetings form a regular part of the Forum's annual calendar.

Additionally, employees have the opportunity to make comments on any aspects of our activities both through the regular People Forum meetings 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 her attendance at board committee meetings as a regular invitee also helps to ensure that decisions are made with appropriate insight into those views.

How malus and clawback have operated during the year

Details of how malus and clawback operate, and the selected periods over which they are enforceable, are shown in the full Remuneration Policy set out in the Annual Report and Accounts for the year ended 30 September 2022. The selected periods have been designed to meet regulatory requirements. Malus and clawback have not been used during the financial year under review.

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. The tables below show how employee remuneration operates using the same framework. 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 2024, 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 through this tax-efficient mechanism. Take-up in currently outstanding SAYE grants is approximately 64% of eligible employees, reflecting the continued and ongoing alignment between employees and shareholders as well as employee commitment to our growth.

Operation	Maximum opportunity	Performance conditions
Salary		
Same as executive directors, though the majority of employees do not receive salary in shares (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 business before it determines those of the executive directors, Company Secretary and MRTs. All employees, other than those on a training rate of pay (for example apprenticeships), receive at least the Living Wage Foundation minimum rate, as do contractors' staff employed at our sites, including cleaners and security personnel	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 enable 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, our 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 defined benefit Paragon Pension Plan.	Maximum contribution for the Paragon Worksave Pension Plan is 10.0% of salary. Maximum contribution to the Paragon Pension Plan during the year was 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. The purpose and link to strategy is the same as for the executive directors and therefore not repeated.

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 business 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 operational requirements and the Committee's decision.

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 regulatory remuneration rules in respect of post-performance period deliverability of the award outcomes.	The maximum award level (except in exceptional circumstances) for employees other than 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 B7.3).

Other variable pay opportunities

We provide other variable pay opportunities to certain groups of employees:

- **PRP** – a cash-based PRP distribution of 1% of underlying profit is paid and forms a part of our 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
- **Discretionary bonus** – all employees whose performance has exceeded expectations are eligible for a discretionary bonus
- **Other** – certain employees below management level are eligible for overtime pay

Further, there are a small number of financial incentive schemes, separate to the annual variable bonus described above, which are available to 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 five 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. Information on directors who were no longer directors at the beginning of the current financial year is not included in the prior year data. Neither do these tables contain information for any director in their year of appointment as they would have received no remuneration in the comparator period.

			Salaries and fees	Allowances and benefits	Bonus
2024					
N S Terrington			**3.0%**	**0.0%**	**1.6%**
R J Woodman			**3.1%**	**0.0%**	**1.6%**
R D East			**10.0%**	**0.0%**	**-**
T P Davda		*(a)*	**25.0%**	**-**	**-**
P A Hill			**4.0%**	**-**	**-**
Z L Howorth	From 01/06/23	*(b)*	**207.4%**	**-**	**-**
A C M Morris		*(a)*	**20.4%**	**-**	**-**
B A Ridpath			**3.8%**	**-**	**-**
H R Tudor		*(a)*	**(30.8)%**	**-**	**-**
G H Yorston			**3.8%**	**-**	**-**
Average employee			**6.6%**	**4.1%**	**16.3%**
2023					
N S Terrington			46.4%	17.6%	(3.2)%
R J Woodman			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			14.4%	-	-
B A Ridpath			14.2%	-	-
H R Tudor			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					
N S Terrington			6.4%	(46.2)%	45.3%
R J Woodman			6.5%	-	45.5%
A C M Morris	From 26/03/20	*(b)*	93.2%	-	-
B A Ridpath			-	-	-
H R Tudor		*(a)*	9.2%	-	-
G H Yorston			-	-	-
Average employee			**1.0%**	**(5.9)%**	**101.7%**

		Salaries and fees	Allowances and benefits	Bonus
		%	%	%
2020				
N S Terrington		**11.9%**	**4.0%**	**(33.9)%**
R J Woodman		**11.7%**	**-**	**(33.9)%**
B A Ridpath		**-**	**-**	**-**
H R Tudor	*(a)*	**2.3%**	**-**	**-**
G H Yorston		**-**	**-**	**-**
Average Employee		**8.5%**	**19.2%**	**(25.7)%**

(a) Change of responsibilities in the year

(b) Appointed during the comparator year

Further information in respect of the constituents of the above table is provided below.

For commentary on movements between prior years please see the relevant years' Annual Report.

(a) Change of responsibilities during the year and (b) appointed during the comparator year

'Salaries and fees' – T P Davda succeeded H R Tudor as Chair of the Remuneration Committee in December 2023.

A C M Morris became Senior Independent Director in August 2023 consequently the 2023 information includes the Senior Independent Director fee for less than two months, whereas the 2024 data includes a full year of this fee. Similarly, in 2023 Z L Howorth received only four month's fees, but received a full year's fees in 2024.

Other information

'Allowances and benefits' – are calculated using the data provided in the single figure tables and their composition is described in note (b) to the executive directors' single figure table and in the notes to the other directors' single figure table for the Chair.

'Bonuses' – The increase in the average employee bonus is mainly attributable to the impact on amounts included for the PSP awards vesting in each period of share price appreciation between the vesting dates.

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, over the past ten years.

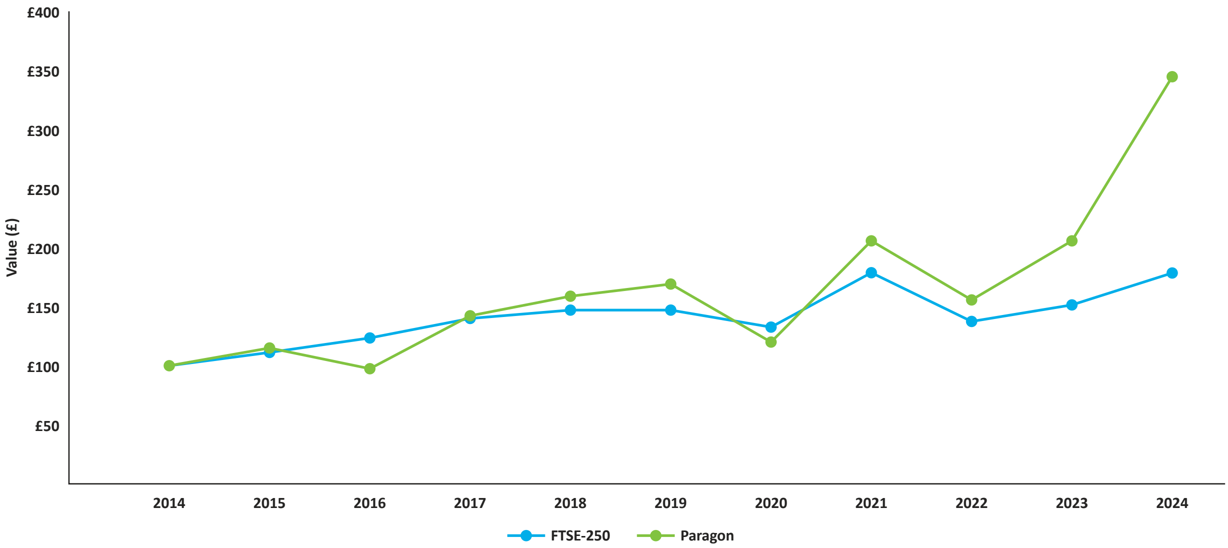
	Single figure of total remuneration	Annual bonus earned against maximum opportunity	Long-term incentive vesting outcome against maximum opportunity
	£000	%	%
2024	3,644	95.7	95.21
2023	3,287	97.0	96.41
2022	3,377	96.0	93.13
2021	2,991	96.1	97.00
2020	2,174	66.1	72.00
2019	3,001	89.4	95.44
2018	2,426	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

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 2024, of £100 invested in Paragon Banking Group PLC on 30 September 2014, compared with £100 invested in the FTSE-250 index. We selected this index because it represents a cross-section of UK companies of comparable size to Paragon.

Ten-year return index for the FTSE-250

Ten years ended 30 September 2024



CEO pay ratio

The table below sets out the CEO pay ratio compared to the 25th, median and 75th percentile employee. In each of the years reported, we have 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 2024.

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 our remuneration philosophy. The CEO pay ratio, as an outcome of those decisions, is therefore reflective of our reward and progression policies.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2024	Option A	117:1	83:1	53:1
2023	Option A	110:1	81:1	52:1
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.

	2024			2023		
	25th percentile pay	**Median pay**	**75th percentile pay**	25th percentile pay	Median pay	75th percentile pay
	£	**£**	**£**	£	£	£
Base salary	**26,000**	**40,000**	**55,000**	26,000	35,000	56,000
Total remuneration	**31,000**	**44,000**	**69,000**	30,000	40,000	64,000

Change in CEO pay ratios

The limited changes in the CEO pay ratios shown above across all three datapoints (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 six years for which data is presented.

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

Gender pay

Details of our gender pay gap analysis are shown in Section A6.3. Gender pay review and reporting are overseen by the Nomination Committee (Section B5) as part of its responsibilities in respect of diversity.

Relative importance of spend on pay

Set out below is a summary of our levels of expenditure on pay and other significant cash outflows.

	Note	**2024**	2023	Change
		£m	£m	£m
Wages and salaries	*57*	**86.5**	84.6	1.9
Dividend paid	*48*	**83.5**	67.9	15.6
Share buy-backs	*47*	**76.6**	111.5	(34.9)
Loan advances		**2,730.0**	3,008.6	(278.6)
Corporation tax paid	*49*	**70.3**	75.1	(4.8)

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

Other information

Notice periods and terms of engagement

The maximum notice period required under the executive directors' contracts is one year. Their contracts 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 2025
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. Outline information only is included in respect of the executive directors, 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 118% of salary		All in shares

* Where the PSP is insufficient to meet regulatory deferral requirements, the annual bonus shall be used to the remaining extent required and that portion of the annual bonus shall be deferred into share awards granted under the DSPB.

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 business 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 is 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 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 our 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.
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 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 guidelines 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 guidelines are 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 guidelines (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 Directors’ 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.

Tanvi Davda

Chair of the Remuneration Committee

3 December 2024

B8. Risk management

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

Dear Shareholder

The Risk and Compliance Committee is the body responsible for the oversight of all risk matters within the Group and is charged with assessing the effectiveness of our risk management framework including risk strategy, appetite and culture and advising the Board on all material risk matters. As Chair of the Committee I am writing to you to confirm how we, as a committee, have discharged our responsibilities in this respect during the year. This includes how we have successfully fulfilled our mandate in overseeing the ongoing management of principal risks, including liquidity and capital requirements and the adequacy of non-financial reporting and compliance obligations, balancing this with the need to be dynamic and responsive as new and changing threats emerge.

The last twelve months has appeared more benign than prior periods in some respects, with interest rates seeming to stabilise and embark on a slow downward trajectory, and the banking crisis that crystallised in early 2023 with the failure of a number of institutions having appeared to subside. However, the volatility of the Covid period and the economic challenges of the last few years continue to have a long-term impact.

The Committee remains mindful that despite the risk profile remaining broadly consistent over the last twelve months we need to remain forward-looking and pre-emptive in our assessment of risk. This is particularly so as we embark on a new era under the Labour government which brings a degree of uncertainty around economic and legislative developments, coupled with evolving wider geopolitical threats which are not yet fully understood and will need to be continually monitored to assess the impact to the Group's operations.

Given the diverse risk agenda, the Committee continues to provide oversight and challenge across all such issues. I remain pleased with the effectiveness of the way the Committee appropriately assesses the impact of a broad range of risks and their implications for all stakeholders.

The Committee's proven capability in dealing with the challenges it has faced in recent periods will be important looking forward, with several known regulatory and economic issues requiring detailed analysis and response likely to impact over the next financial year and beyond. The Enterprise Risk Management Framework ('ERMF') will continue to provide the toolkit to identify, assess and manage all such risks on an ongoing basis.

The ERMF is well-understood across our businesses, and the Committee provides oversight as to its appropriateness. The Committee has seen this mature and embed over the last few years in line with broader strategy and advocates for continuous improvement in the framework's capability to ensure we are well-placed to address future risk challenges and increasing regulatory expectations. The Committee is firmly committed to supporting investment in refining the ERMF to ensure that robust systems and controls remain a core priority and a key consideration as all of our business lines undergo wide-ranging transformation.

The increasing maturity of our risk management processes is evident through the results of the annual risk maturity survey reported to the Committee which, together with the regular risk culture reporting received, pleasingly demonstrates that risk awareness continues to be embedded across all areas of the business and individual accountability is well-understood.

Our strong risk culture is imperative in driving the right behaviours and understanding the implications of our strategy and operations to ensure that we achieve good outcomes for all customers. The Committee therefore continues to ensure that good customer treatment remains at the forefront of its agenda, and the risk framework is crucial in driving this through its policy framework, risk appetite and risk and control assessment approach.

The advent of the Consumer Duty has helped strengthen this relationship and during the year the Committee has continued to spend considerable time in ensuring that the changes developed to meet last year's July 2023 deadline for open book products have been firmly embedded in day-to-day operational and risk management processes. At the same time the Committee has overseen progress towards successfully completing the roll-out of the Duty to the remaining legacy products in the Duty's scope, meeting the July 2024 deadline.

The Committee received the first Consumer Duty self-assessment in July 2024 ahead of review by the Board which provided a clear articulation of the comprehensive programme of activity which has occurred. This has ensured that we successfully met both regulatory deadlines, and the robust and transparent practices implemented will drive forward a culture of continuous challenge and improvement in striving to achieve good customer outcomes. The Committee will continue to receive regular reporting to ensure this remains a priority and to provide oversight on identification and resolution of any issues that need to be addressed.

The importance of good customer outcomes will clearly be a key driver in the ongoing uncertainties around the resolution of complaints in respect of motor commissions which have come to feature heavily in regulatory communications during the year. Following the Court of Appeal judgement in the cases of Johnson, Wrench and Hopcraft on 25 October 2024, the potential impacts on the wider industry are being analysed and the Committee will continue to ensure that the risk profile of the business and the needs of our customers are appropriately considered as the legal and regulatory position becomes clearer.

Focus during 2024

Last year I set out the Committee's priorities for the 2024 financial year and I am pleased to say that these commitments have been met comprehensively. These areas of focus have remained high priority ensuring they have been tracked on an ongoing basis and concluded as appropriate despite new and emerging risk issues requiring attention. I can therefore confirm the Committee has diligently provided oversight and consideration of the following key areas:

- Close monitoring of wider industry trends in rising levels of claims management company activity and claims more generally in light of the FCA's announcements on motor commissions. The Committee has continued to track the progress of industry and regulatory developments in this area to ensure any complaints received are dealt with in line with the FCA's approach and timeframes
- Ongoing review of the final policy implications of Basel 3.1. With the publication of the final rules for Pillar 1 in September 2024, the Committee will continue to review the impacts of these as we prepare to meet the associated implementation deadlines
- Ongoing monitoring of the embedding of the FCA Consumer Duty for those products that were in scope for the July 2023 deadline, including review of the first self-assessment, and oversight of the work undertaken ensuring that the Group successfully met the July 2024 deadline for the closed book products in the second phase. 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
- Continued focus on ensuring that the Group maintains processes and controls to identify and support customers displaying any signs of vulnerability as economic challenges continue to manifest themselves ensuring that the Group provides appropriate forbearance and delivers good outcomes for all customers
- Close monitoring of the impacts of strategic transformation on the risk profile, given the volume of change that has occurred across all business lines during the year and further transformative activity planned in future periods. 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 as it looks to harness new technologies that can also bring new threats
- Oversight and review of the Group's progress in obtaining IRB accreditation as the Group continues to respond to PRA feedback
- Detailed oversight of liquidity management and funding given the focus on banking failures such as Silicon Valley Bank and Credit Suisse in 2023 but also close monitoring of the pay down profile of TSFME funding and the impacts of this schedule on the liquidity position

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:

- Regular oversight of our financial crime profile as we remain committed to a goal of continuous improvement in AML systems and processes
- Monitoring the impact of the wider economic trends across the suite of principal risks. Whilst the volatility of previous periods has stabilised, the impacts of elevated levels of inflation have still manifested themselves during the year and the directional change in interest rates has been considered in terms of liquidity and market risk exposures as well as impacts on the lending profile

- Ongoing cyber threats in the face of high-profile incidents that continue to impact global institutions. The Committee continues to receive regular updates on the oversight and assurance of this risk to ensure it remains vigilant and robust in its detection and response
- Continuing focus on the legacy impact of the economic downturn on the lending lines and the impacts on credit policy. Particular focus has been on an uptick in credit issues in development finance, where higher costs and slower sales have been a market-wide characteristic of the sector. The Committee has reviewed regular updates on trends and overseen and approved credit policy decisions across all lending activity
- Reviewing and challenging risk management arrangements in line with our growth and strategy including review of assurance reporting over key risk exposures and themes provided by the Second Line Assurance function

Other items addressed by the Committee, including 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 Recovery and Resolution Framework and Plan, and 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 continues to review a range of economic scenarios and 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 the management of such risks remains prudent and well within buffers. 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 for all risk types.

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 in an effective manner.

2025 and beyond

Whilst the economic outlook appears more stable and the volatility of recent years has somewhat diminished, the broader uncertainties of geopolitical threats and a new UK Government still provide an element of uncertainty as to whether these trends will continue longer term. The Committee remains mindful that there are a range of scenarios that could manifest themself as global tensions play out and will continue to monitor these closely and assess the potential impacts on our principal risks. However, given the Committee's proven ability to effectively oversee and provide a strong steer over the varied challenges of the last few years I am confident that it is well-placed to continue to maintain close oversight of known and emerging financial and non-financial risks.

The Committee is keenly aware of a number of ongoing risk issues that are already being considered and will need to be tracked over the coming year. In particular, the new UK Government has already published its Renters' (Reform) Bill, intended to provide better protection for both tenants and landlords. The progress of the bill, its implications for the buy-to-let market and any impact on the risk profile of our portfolio are matters which the Committee will remain close to over the coming months.

As further clarity is received on this and other regulatory and legislative changes, the Committee will play a key role in ensuring the impacts are fully assessed and understood, any new and emerging issues are identified and that a robust assessment of these takes place, to ensure effective management in accordance with our risk appetite.

Other priorities for the Committee will include:

- Ongoing review of our progress in addressing the requirements of Basel 3.1 to meet the revised implementation deadline
- Ensuring that the business continues to maintain strong oversight of complaints activity in respect of motor commissions and is well-placed to address regulatory and legislative expectations once the FCA pause comes to an end in December 2025
- Continued focus on the impacts of the planned strategic transformation activity on the risk profile, given the level of change in progress and planned across all business lines, ensuring that resilience remains a priority consideration with a particular focus on ensuring that new and existing third-party relationships are managed in line with risk appetite
- Ensuring that the business remains firmly on track to meet the March 2025 regulatory deadline for full compliance in respect of operational resilience requirements. This will require the business to demonstrate it can operate consistently within stated impact tolerances
- Oversight and review of progress in obtaining IRB accreditation as the business seeks to address PRA feedback
- Close monitoring of the cyber profile of the business as it continues on its journey of digitalisation, against a background of ever more sophisticated and dynamic threats in this arena, including those risks brought through more extensive use of artificial intelligence
- Ongoing monitoring of the embedding of the FCA Consumer Duty following closure of the project phase. The Committee is focussed on ensuring delivery of good outcomes for all customers, prompt identification of any signs of customer vulnerability and the provision of appropriate forbearance as necessary

Our risk profile is a core consideration in all operational and strategic decision-making and the Committee is central to ensuring that all known and emerging risk impacts are adequately considered, challenged and mitigated.

In my opinion, the Committee has executed its responsibilities in line with its Terms of Reference and has met its objective of advising the Board on all material risk matters. The Committee's effectiveness in overseeing risk issues on a timely and proportionate basis is enabled through its embedded risk practices which ensure that the right issues are escalated through the established and well-understood risk and governance reporting processes.

The risk management framework and the three lines of defence model it is based upon continue to provide a sound mechanism on which the Committee can rely as it moves into the new financial year. I am therefore confident and pleased to report that the Committee remains well-placed to assess and manage any risk issues that may arise over the coming year.

Peter Hill

Chair of the Risk and Compliance Committee

3 December 2024

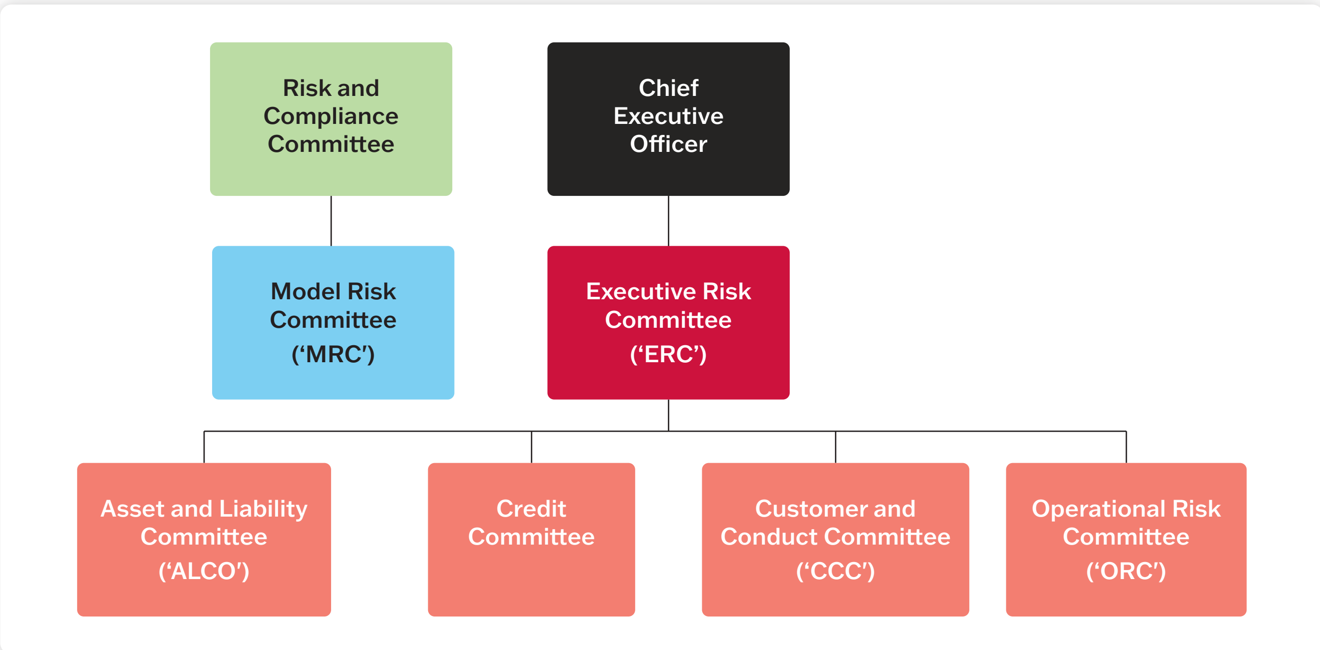
This report sets out our approach to the management of risk in executing our business strategy.

B8.2	B8.3
Risk governance How the Board, through the Risk and Compliance Committee sets objectives for risk management in the business, and assesses their achievement. This includes the processes through which risk exposure is monitored at a senior level.	**Risk management culture** The overall approach to risk management in the business, set by the Board and disseminated to all levels of its operations, which informs the development of the risk management framework.
B8.4	**B8.5**
Risk management framework The systems adopted to achieve the Board's objectives, including the processes for setting risk appetites and monitoring performance against them.	**Principal risks and mitigations** The principal risks identified by these systems, how they are mitigated and the extent to which these exposures have developed over the reporting period

B8.2 Risk governance

The Board has overall responsibility for the approach to risk management and internal control within the Group, including the establishment and monitoring of the risk management and internal control framework, identifying the nature and extent of the principal risks faced by the business and setting risk appetites in respect of each of those risks. It has established the Risk and Compliance Committee to support it in fulfilling these responsibilities.

The Board's approach to governance and its committee structures are described in Section B4.1. The committee structure and lines of oversight in relation to risk management, which were in place throughout the year, are set out below.



Risk and Compliance Committee

The Risk and Compliance Committee 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 November 2023 and again in October 2024, after the end of the year, align with the Code and good practice. Changes made to the terms of reference in October 2024 reflect the 2024 Code and associated Guidance.

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

- Recommendations and matters escalated from the ERC
- Current and future risk appetite, including the extent and categories of risk which the Board regards as acceptable
- The effectiveness of the ERMF and the extent to which risks inherent in our business activities and strategic objectives are controlled within the risk appetite established by the Board
- The effectiveness of systems and controls for compliance with statutory and regulatory obligations
- The appropriateness of our risk culture, to ensure it supports the Board's agreed risk appetite
- The effectiveness of our strategies to promote good outcomes for customers and integrity in the market as central to our operations and culture
- The effectiveness of the business 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
- Processes for compliance with laws, regulations and ethical codes of practice and the prevention of fraud
- Reports from the Internal Audit function relating to matters within its remit

The Committee provides oversight and challenge to enterprise-wide risk management arrangements, which are managed through the ERC. It also retains oversight responsibility for model risk. 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 Model Risk Committee ('MRC').

The Committee meets at least four times a year and covers an evolving and diverse agenda striking a balance between ongoing and standing items, together with focussing on topical or emerging issues that require timely attention. The executive directors, CRO, Chief Operating Officer, General Counsel and Chief Internal Auditor 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 employee.

At each meeting the Committee reviews the report from the CRO which details a summary of the risk profile across all principal risks and any changes since the prior period. This includes analysis of risks arising from the economic outlook together with geopolitical, regulatory change and legislative risks that may impact the Group and its customers.

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 Chief Internal Auditor 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
- Review of the emerging and corporate risk register, including the consideration of new or emerging risks and regulatory developments and their impacts. Particular focus in the year was given to Consumer Duty, Operational Resilience and the capital impacts of Basel 3.1
- Consideration and challenge of management's rating of the various risk categories
- 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 risk appetite for each of our principal risks to ensure they remained consistent with the delivery of our strategic objectives, proposing any required changes to the Board, as required
- Reviewed the ongoing enhancements to the ERMF including the approach to assessing risk culture and its maturity
- Continued to monitor progress in respect of the application for regulatory approval of our IRB approach to credit risk management
- Maintained its ongoing focus on fair treatment of customers to ensure that appropriate support is in place for those customers facing financial difficulties
- Provided ongoing oversight to the project to implement the requirements of the FCA Consumer Duty on our products and services to ensure that the July 2024 deadline for legacy products was successfully met, and reviewed the first annual Consumer Duty report, which covered Phase 1 of the Consumer Duty, implemented in July 2023
- Reviewed the ongoing embedding of our approach to Operational Resilience, ensuring we are well-placed to meet the March 2025 regulatory deadline for demonstrating the ability of the business to remain within stated impact tolerances. This has also included regular focus on the impacts of our technology transformation programme on the risk and resilience profile
- Received ongoing updates on the broader cyber landscape and the potential risks this may pose to resilience. The global CrowdStrike outage was specifically considered, in light of the potential impact on third party IT service providers, both within the business and across the industry more generally
- Maintained oversight of our 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
- Reviewed a detailed update on the risk profile and credit performance of the development finance business in light of the impacts of the interest rate environment and elevated costs in the construction industry
- Provided oversight on our progress in 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 our 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 risk appetite

- Provided oversight of engagement in the PRA consultation process on the implementation of Basel 3.1 prior to its publication of the policy statement in September 2024, and considered analysis on the potential impacts on capital requirements
- Monitored the ongoing developments surrounding the FCA's investigation into the propriety of certain commission structures and processes in the motor finance market
- 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:

  - a detailed analysis of the impacts of relevant regulatory statements including the FCA's review and update on the cash savings market on our easy access offerings
  - the impact on motor finance exposures of the FCA's ongoing review into historical commission arrangements in the UK motor finance market
  - potential economic scenarios, with UK interest rates perceived to have stabilised after the increases of recent years
  - ongoing inflationary challenges and the potential wider impacts of the economic and social policies of the incoming Labour government, including the potential impact of the Renters' Rights Bill on our buy-to-let strategy
- Undertook focussed reviews of each of the principal risks individually on a regular basis
- 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
- Provided review and challenge to the Second Line Risk Assurance Plan
- Reviewed, challenged and approved the annual report of the Money Laundering Reporting Officer ('MLRO'), in addition to providing continued oversight of the ongoing work to strengthen AML controls
- Considered and approved the scenario library, which underlies the stress testing conducted for ICAAP, ILAAP and forecasting purposes
- Considered and challenged reports in relation to the ICAAP and Recovery Plan, recommending approval to the Board
- Considered and challenged reports in relation to the 2023 ILAAP, recommending approval to the Board and undertook preliminary work in respect of the 2024 ILAAP, scheduled to be presented for approval after the year end
- Provided oversight of balance sheet hedging arrangements
- 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 business areas; conduct and regulatory updates, including revisions to the Code; external risk management perspectives and best practice; AI in banking; cyber risk; 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 risk management framework, monitoring adherence to risk appetite statements and identifying, assessing and controlling the principal risks. The ERC was established under the specific authority of the CEO, is chaired by the CRO, and includes all Executive Committee members, with the Chief Internal Auditor attending as an observer during the year. The ERC monitors the interaction and integration of business objectives, strategy and business plans with 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 approach to controlling each principal risk and its capability to identify and manage such risks
- Reviewing the emerging and corporate risk register, including reviewing emerging risks as they arise, considering their potential impact on business objectives, strategy and business plans, as well as risk choices, appetite and thresholds
- Periodically reviewing the effectiveness of internal control and risk systems, including material outsourced arrangements and risks associated therewith, particularly where they might impact customers
- Ensuring compliance with relevant PRA and FCA regulations (excluding the SMCR, which is overseen by the Performance ExCo)
- Reviewing the process and outcome of the 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 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 bodies 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')

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

The principal purpose of the 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 and funding risk, pricing and capital management as well as the treasury control framework. The ALCO operates within clearly delegated authorities, monitoring exposures and providing recommendations on actions required. It also monitors performance against risk 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 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 oversight both during the implementation project and subsequently, 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 Operations 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. It also provides guidance and makes recommendations to implement 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 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 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 retains oversight through the annual review of the MLRO 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 our 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 and embedded risk culture is seen as a key enabler to the successful delivery and execution of the 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 our performance management process driving specific risk management objectives for all employees. Our Code of Conduct, which applies to all employees, further underlines the importance of, and individual responsibility for, risk management.

We continue to ensure that our approach to measuring and monitoring risk culture remains proportionate and evolves in line with our overarching strategy and with regulatory expectations. With the embedding of the initial phase and further roll-out of phase 2 of the new Consumer Duty regime during the year, our risk culture and our widely understood ERMF have provided both a strong foundation and a mechanism to support the successful implementation of the Duty.

Ongoing activities have been undertaken during the year demonstrating the importance of a robust risk culture in continuing to support our approach to managing risk.
These included:

- Regular reporting to risk committees on risk culture based on four agreed components: Leadership and Direction; Individual Commitment; Joint Ownership; and Governance, together with clear measures to evidence these
- Launch of Purpose and Performance Profiles ('PPPs') ensuring that all employees have formal objectives relevant to their role reinforcing our commitment to the "Think Risk" initiative

- Undertaking an annual risk maturity assessment across each area of the business including an evaluation of each area's perception of risk and how its risk management activities are viewed and put into practice
- Strengthening and supporting the community of risk champions, who represent each of the business areas, to promote and embed a risk-aware culture across the business

These enhancements are designed to reinforce our existing strong risk culture, which is embedded through various practices, supporting and protecting our wider strategic goals. This approach is essential to protecting customers, shareholders, creditors and our 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 our risk management approach and is aligned with the further 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

Our risk culture has been central in ensuring historically low levels of credit and operational losses, and a positive record on conduct issues.

B8.4 Risk management framework

Introduction

The 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 our strategy. We continue to ensure that the framework evolves to reflect the changing business, regulatory and economic landscape and emerging threats. Therefore, we remain committed to continuous improvement in our 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 businesses.

The past twelve months have seen continuing good progress in embedding the ERMF to ensure that its principles are adopted into business practice, and that it is well-placed to manage all categories of risk and respond to the changing business environment in a proportionate manner. Activity during the year has included the annual refresh of all principal risk policies, ensuring they remain relevant and reflect the minimum controls expected to manage the principal risks. Conduct risk policies have been further enhanced to ensure full alignment to the expectations of the FCA Consumer Duty. A comprehensive assessment of the appropriateness of our risk management software was also undertaken and further work will continue over the next year to ensure the software can continue to meet future risk management requirements.

Given the work already undertaken over the last three years on developing the ERMF, our present focus is on ensuring that it operates in line with expectations. This is enabled through a more structured programme of assurance and regular formal assessment of the ongoing effectiveness of the ERMF throughout the business, underpinned by continued embedding of our risk culture and by targeted risk management education.

Robust foundations and practices have been established over the last few years, which are driving effective risk management throughout the organisation. However, it is recognised that risk management practices need to remain dynamic, and we are committed to a programme of continuous improvement in our ERMF. This will ensure that refinements continue to be made, maintaining ongoing effectiveness and embedding the risk toolkit across our business, while remaining focussed on the identification and management of material risks and key controls.

Over the next twelve months particular emphasis will be on revisiting the current risk and control assessment process ('RCSA') to ensure it remains aligned to our strategic priorities and the structure of the business. In turn this will drive further review of risk indicators to enhance and support insight into the effectiveness of risk management activities. These activities will complement the maturing risk assurance approaches and risk management information including policy frameworks, all of which remain core to the ERMF.

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 our strategic objectives. The key objectives of the ERMF are to:

- Define a strategy to support our attitude to risk, including outlining the approach taken to setting qualitative statements and quantitative metrics to define and assess our appetite and tolerance for risk across 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 business, 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 principal risks and identify the minimum control requirements and key indicators to manage and measure these risks

Three lines of defence model

We employ 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 our business
- 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 Executive Performance 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 business
    - 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 Chief Internal Auditor 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 our 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 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

We have developed a tiered approach to setting and monitoring 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. All metrics and thresholds are reviewed regularly to reflect any changes in risk appetite, to ensure they remain 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 our business model and strategy. A summary of those risks and uncertainties which could prevent the achievement of our strategic objectives, how we seek 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 our Pillar 3 report, published on our corporate website.

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

The risks are set out in accordance with our classification of principal risks, approved by the Board during 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 risk that our capital becomes insufficient to operate effectively, including meeting minimum regulatory requirements, operating within board-approved risk appetite, and supporting our strategic goals. Whilst the Bank of England has published its final policy for the implementation of the Basel 3.1 standards in the UK, which is currently intended to be effective from 1 January 2026, a final consultation on the implications for Pillar 2 capital is still to be delivered.	A robust process exists over reporting capital metrics, 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. We continue to engage with the PRA in respect of the application for the accreditation of our 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 final policy responded to important sector feedback, mitigating some of the impact set out in the original consultation, for example, on residential collateral valuations. The final policy also maintained proposals for the IRB accreditation process that are potentially helpful to our application. We expect to apply for the Interim Capital Regime in due course, which will have the effect of delaying the implementation of Basel 3.1 until 1 January 2027.	The delivery of the Basel 3.1 policy statement package has been a significant milestone for the overall UK capital risk framework, but there are still certain areas (particularly Pillar 2 capital) that must be finalised through a new consultation. The global and UK economic outlook has continued to be subject to pressures that are driven by the continuing intervention of Russia in Ukraine and the ongoing unrest in the Middle East. Although downside risks will present headwinds, our 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 for us to support lending to households and businesses.

Further information about our 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 risk that we have insufficient funds to meet our obligations as they fall due. Retail deposit-taking is central to our 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.	We maintain 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. We have a dedicated Treasury function, responsible for the day-to-day management of 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, provide ready access to wholesale funding or liquidity if required.	We remain well placed to access funding from a wide range of sources to meet future funding requirements. Access to the retail savings market has been effective during the year through both direct and intermediated deposit platform distribution channels. To supplement the existing RMBS issuance platform, we are in the process of establishing a covered bond programme which will further enhance access to wholesale funding markets. Liquidity and Funding Risk is considered to have reduced from its level at the start of the year given the repayment of the majority of TFSME funding. Out of £2,750.0 million of TFSME funding outstanding in September 2023, we have repaid £2,000.0 million leaving £750.0 million to be repaid, mostly in the coming financial year. The collateral released by this prepayment has materially increased our capacity to access contingent liquidity in the year.

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

Market Risk

Description	Mitigation	Year-on-year change
The risk that changes in interest rates at which we lend and those at which we borrow may adversely affect net interest income and profitability.	This risk is managed within board-approved risk appetite limits with comprehensive treasury policies 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. We seek to match the maturity profile of assets and liabilities and use financial instruments, such as interest rate swaps, to hedge the exposure arising from repricing mismatches.	The recent reduction in the Bank of England base rate was the first since 2020 and is expected to be the first of a rate cutting cycle. Consequently, there is a particular focus on risk management in this area to ensure net interest margin is managed effectively, enhanced during the year by the creation of a net free reserves hedge. However, despite the projected interest rate trajectory, our overall market risk profile, relative to the balance sheet, has remained broadly similar to that at the previous year end and associated risk levels remain generally stable.

More detailed information on our 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 carry 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	We have 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. A range of sources are used to inform expectations of key external factors such as interest rate movements and house price inflation which, in turn, guide policy and underwriting. We also continue to develop opportunities to diversify the range of activities and income streams, consistent with the strategic objective of operating as a prudent, risk-focussed specialist lender. The majority of our 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 set out in our comprehensive treasury policies. Exposure to approved counterparties is monitored daily by senior management within the Treasury function with all exposures managed in accordance with ALCO-approved limits. Ongoing monitoring of the credit rating and financial performance of all outsourced relationships and critical suppliers is undertaken.	Credit risk pressure has generally eased throughout the second half of the 2024 financial year with borrowers gradually acclimatising to the higher interest rate and cost environment, albeit certain development finance facilities agreed prior to the rapid escalation in interest and inflation rates did face challenges. Adjustment to those higher rates in the buy-to-let mortgage business has been greatly mitigated by the widespread utilisation of fixed rate products which have both staggered the impact of higher loan repayments as well as providing a bridge to loans with lower interest rates than were available a year earlier. The more favourable outlook for interest rates has been reflected in market pricing for mortgage products and this has supported customer demand for residential property. Asset values have been, and are expected to remain, firm as a result, although sales are anticipated to take longer to realise. Prudent lending policies have been maintained throughout the period, with added insight and control supported by the broader sourcing and usage of digitalised data. Machine learning tools have supported the efficient identification of higher-risk loans and have helped provide a basis for policy enhancement. The more positive economic outlook coupled with the expectation of minor interest rate reductions over the next reporting period, mean that the forecast for credit risk remains stable.

More information on our 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
Statistical models are used across the business to inform financial decision making and hence it is imperative that the environment in which these 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 used in the business. 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, was published in May 2023 and applies to firms with permission to use internal models to calculate regulatory capital from May 2024. We are undertaking a programme of work to ensure compliance with the principles in advance of receiving IRB accreditation and are therefore 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. However, given the strength of the framework and oversight processes and our continuing investment in this area, model risk remains within appetite and the outlook remains stable.

Information on our use of models in 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 our philosophy. Detrimental reputational impacts could result from either internal actions and/or external events, as a consequence of the crystallisation of other principal risks, or through failure to safeguard the integrity of our brand or meet external expectations in our business practices.	The reputational risk policy supports reputational risk management across the business. 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 our decision-making processes and are reviewed by the External Relations Director. We will not undertake any activity which we consider might be damaging to our reputation. Employees adhere to defined standards of conduct, encompassing policies, procedures and ways of working. These are set out in our publicly available Code of Conduct. We have an experienced External Relations function which manages all our communications and ensures that our reputational profile is protected. Reputational risk is monitored through tracking traditional media 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.	◇ We continue to manage our reputation effectively in all our dealings. Whilst we are mindful that reputational threats can emanate from a variety of different sources, we remain well-placed to respond quickly and efficiently to any potential reputational issue.

Strategic Risk

Description	Mitigation	Year-on-year change
Our strategy as a specialist lender is key to our operating model and business planning. However, there is a risk that changes to the business model, or macro-economic, geopolitical, regulatory, competitive or other external factors may impact delivery of strategic objectives.	We closely monitor economic developments in the UK and overseas, with support from leading independent macro-economic and other advisors. Stress testing is performed to assess the expected performance of our business under a range of operating conditions. This provides the Board with an informed understanding and appreciation of the capacity of the business to withstand shocks of varying severities. We continue to exploit opportunities to diversify the range of our activities and income streams, consistent with the strategic objective of operating as a prudent, risk-focussed lender.	A change in government and change in the interest rate cycle has led to an improvement in the domestic political and economic landscape over the past year. Consumers and corporates look to have largely weathered the cost-of-living crisis and the peak in interest rates, and now look set to benefit as inflation and interest rates fall. While these are positive developments there remains some uncertainty around the performance of the UK economy in both the medium and longer term and globally geopolitical risks remain elevated. Despite a continued volatile environment, our businesses have remained resilient throughout the year, and we have made strong progress in meeting the strategic targets in the corporate plan. In particular, we have continued to make significant progress with our digitalisation programme, with key deliverables completed in the year. This remains a key priority. Despite the more positive economic situation and our own continuing strong activity levels, we recognise that the potential for geopolitical and associated macro-economic impacts remains elevated. This in turn could lead to further economic and property market disruption within the UK, presenting a risk to the execution of our strategy.

Climate Risk

Description	Mitigation	Year-on-year change
We consider the impact of climate change both directly on our business and indirectly through our third-party relationships or lending activities. This includes both the transitional risk to our 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.	We proactively manage physical risk and have 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. Other climate risk mitigation levers, such as offering sustainable products, are available to support the evolution of our balance sheet in line with the markets in which we operate, mitigating stranded asset risk. We continue to actively engage with public forums such as Bankers for Net Zero ('B4NZ') 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 enhanced and expanded to cover a broader asset range to inform longer-term strategic planning. The Sustainability Committee provides comprehensive oversight of climate initiatives across each business line, whilst the Credit Committee additionally monitors the performance of mortgaged property collateral against EPC data, and concentration of electric vehicles.	We have continued to make progress on our climate change agenda, with activity focused on enhancing our financed emissions balance sheet, continued public policy advocacy through B4NZ, and enhancing our approach to climate change scenario analysis with an expanded focus. The levels of regulatory scrutiny and public interest in this area continue to be high. However, our approach has further matured in the year whilst maintaining a proportionate approach to managing the risks and opportunities associated with climate change. Although there is significant uncertainty in respect of the direction of government policy and regulation in this area, our scenario analysis assessment indicates that exposure to climate change impacts is being managed appropriately and does not pose a significant or increasing risk.

Information on our management of climate related risks, including our financed emissions balance sheet, 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 our culture and strategy. Conduct risk arises where culture and behaviours fail to promote the customer's best interests and avoid foreseeable consumer harm, resulting in poor outcomes for them.	The management of conduct risk is tailored to each specific product and customer type and includes dedicated quality and control teams. Control teams focus on validating process adherence, measuring the delivery of good customer outcomes, and overseeing the appropriate management of those customers showing signs of vulnerability, including those in financial difficulties. During the year work continued to review and enhance our management of conduct risk to support adherence to new Consumer Duty rules for all open and closed retail products within its scope. This work included ensuring all employees had customer-focused objectives and completed conduct risk related training. Our approach to employee remuneration means that very few employees are included in financial incentive schemes. The remuneration policy is reviewed by the Remuneration Committee annually and individual schemes require approval from the Chief People Officer, CFO and Conduct and Compliance Director before implementation.	We continue to monitor the progress of the FCA's investigation into historical commission practices in the motor finance industry and are assessing the impact of any developments in this area, particularly in light of the Court of Appeal decision in respect of such practices in October 2024. We are committed to ensuring that our customers receive good outcomes and while our expectations of conduct risk exposure in this sector remain low, we will ensure that we respond to the FCA findings following the lifting of the regulatory pause in handling these complaints in December 2025, once clarity is received. While we are committed to providing appropriate support to all our customers, regulatory expectations around the tailoring of support to individual customer circumstances continues to increase, and with it the requirements for ongoing training and development of customer-facing teams. The change of government creates a degree of economic uncertainty which will require ongoing analysis to understand and anticipate the potential impact on our various customer cohorts, and to respond accordingly.

Operational Risk

Description	Mitigation	Year-on-year change
Operational risk arises across the business through the possible inadequacy or failure of internal processes, people and systems or from external events. Operational risk is inherently diverse in nature. All our 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.	We have 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 and Security (including cyber risks), Data Protection, Third Parties, Change Management, Financial Crime and People. We are committed to ensuring the business remains resilient, particularly in respect of IT capability and security against a backdrop of ever more sophisticated cyber threats. This remains a priority area for investment as we increasingly move to cloud-based infrastructure and look to harness digital capability as part of our IT roadmap. As the use of AI becomes more established, we remain alert to the additional risks this may bring to our own operations and the wider industry as well as the opportunities this may also create in enhancing risk management approaches. While we continue to drive through strategic transformation across all 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 continues to rely on and expand the use of 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 critical to overall resilience. We are focussed on building an engaged and highly-skilled workforce through the delivery of effective reward, succession planning, recruitment, development and retention strategies. In addition, we remain committed to the wellbeing of all employees and responding to their feedback, enabled through our multiple employee networks.	Whilst the nature and volume of cyber-attacks across the broader landscape continues to evolve and such attacks are apparently more frequent, based on public reporting, the Group does not consider that we have a higher than average likelihood of being subject to a cyber threat. The general threat level for cyber-attacks remains elevated in light of geopolitical factors and we continue to invest heavily in this area, particularly in key areas such as data loss prevention and vulnerability management. Ongoing cyber risk assessment is undertaken and is fully embedded in our approach to transformation activity, with cyber risk mitigation remaining a key driver of activities such as technology strategy and corporate insurance. Ongoing assessment of, and response to, the Group's cyber profile remains integral to the successful execution of our 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. We also continue to monitor the impacts of the wider cost-of-living challenges and how these may manifest themselves as potentially heightened risk exposures across key operational risk categories, such as financial crime. However, we actively assess our resource profile and capabilities to ensure resources are deployed appropriately in such areas to manage any associated risks. Regulatory compliance expectations continue to rise, and we are committed to ensuring that we remain compliant in our operational activities. There is potential that as expectations increase, gaps may be identified which will need addressing to reduce inherent operational risk exposures. We continue to make strong progress on our strategic transformation programme, which we believe 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. Operational risks are diverse in nature with the operating environment constantly evolving through dynamic technologies and the changing external landscape. Despite these challenges we continue to maintain a robust control environment with operational risk related losses remaining at comparable levels to previous years, and the business has therefore seen no material adverse changes to its operational risk profile during the year.

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 UK Listing Rules ('UKLR') and the Disclosure Guidance and Transparency Rules ('DTR') issued by 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.

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 2024.

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 forthcoming AGM, in March 2025.

None of the directors has a service contract with the Company requiring more than twelve 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 £77.0 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 5 March 2025 and resolutions will be put to that meeting proposing that they are 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 6 March 2024 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 6 December 2023 a share buy-back programme of up to £50.0 million was announced. The reasons for this programme were set out in Section 3.3 of the preliminary results announcement for the year ended 30 September 2023. The programme was extended to £100.0 million on 5 June 2024 for reasons set out in Section 4.3 of the Half Year Financial Report for the six months ended 31 March 2024, published on that day. During the year 10,798,682 £1 ordinary shares (2023: 20,721,957) having an aggregate nominal value of £10,798,682 (2023: £20,721,957), were purchased under this programme and initially held as treasury shares. Total consideration paid in the year was £76.6 million, including costs (2023: £111.5 million). This programme continued during October 2024, the Company having entered into an irrevocable agreement with its brokers for the completion of the programme prior to the year end. The programme concluded on 31 October 2024, when regulatory approval expired, with £7.5 million of the programme outstanding.

On 23 February 2024, 12,095,453 ordinary shares previously held in treasury were cancelled, leaving a balance held in treasury of 1,616,343 shares. The cancelled shares had a nominal value of £12,095,453 and represented 5.6% of the issued share capital excluding treasury shares at that time.

On 30 August 2024 6,000,000 ordinary shares previously held in treasury were cancelled leaving a balance held in treasury of 680,378 shares. The cancelled shares had a nominal value of £6,000,000 and represented 2.9% of the issued share capital excluding treasury shares at that time.

During the year 653,069 shares held in treasury were transferred to the holders of maturing options granted under the Group's Sharesave share option plan (2023: 1,418,430). Consideration received in respect of these shares was £2.1 million (2023: £4.0 million).

The number of treasury shares held at 30 September 2024 was 2,124,162 (2023: 10,074,002), representing 1.02% of the issued share capital excluding treasury shares (2023: 4.61%). The maximum holding of treasury shares during the year was 13,711,796 (2023: 14,870,044) representing 6.38% of the issued share capital excluding treasury shares at that time (2023: 6.56%).

Dividends

An interim dividend of 13.2 pence per share was paid during the year (2023: 11.0 pence per share).

The directors recommend a final dividend of 27.2 pence per share (2023: 26.4 pence per share) which would give a total dividend for the year of 40.4 pence per share (2023: 37.4 pence per share) subject to approval at the forthcoming AGM.

Major shareholdings

Notifications of the following major voting interests in the Company's ordinary share capital, notifiable in accordance with Chapter 5 of the DTR, had been received by the Company as at 30 September 2024.

Shareholder	% Held	Notification date
Janus Henderson Group	**4.99**	20/03/2024
Liontrust Investment Partners LLP	**4.99**	15/05/2024
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 18 November 2024 Black Rock Inc. notified the Company that its voting interest in the Company's shares had increased to 5.00%.

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

As at 28 November 2024, 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 2024 no political donations were made by any group company (2023: £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.

Having regard to regulatory requirements relating to external auditor tenure, the directors undertook a tender process in the year in respect of the external audit for the year ending 30 September 2026. The form and results of this process are described in the report of the Audit Committee (Section B6).

With respect to the financial year ending 30 September 2025, the directors, having considered the requirements for rotation of auditors, the tender process described above, the length of service of KPMG and the conduct of the audit, concluded there was no 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 Report, Section B6.

Annual General Meeting

The AGM of the Company will take place on 5 March 2025 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 UKLR 6.6.1R

There are no matters which the Company is required to report under Listing Rule UKLR 6.6.1, 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 2.0 million ordinary shares (2023: 1.5 million). As the shares included in these arrangements are held on the consolidated balance sheet, this has no effect on the amounts reported by the Group.

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

Details of the shares held by the trust are set out in note 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 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 DTR 7.2.1 of the DTR 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 DTR 4.1.5 of the DTR 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 2024, for the purposes of the DTR.

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

3 December 2024

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 2024, 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 (Senior Independent 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
3 December 2024

C.

Independent Auditor’s Report

On the financial statements

C1. Independent auditor's report

To the members of Paragon Banking Group PLC

1. Our opinion is unmodified

We have audited the financial statements of Paragon Banking Group PLC ('the Company') for the year ended 30 September 2024 which comprise the:

- Consolidated Statement of Profit or Loss
- Consolidated Statement of Comprehensive Income
- Consolidated and Company Balance Sheets
- Consolidated and Company Cash Flow Statements
- Consolidated and Company Statements of Changes in Equity
- Related notes, including the accounting policies in note 67 other than the disclosures labelled as unaudited in note 61.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2024 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 9 February 2016. The period of total uninterrupted engagement is for the nine financial years ended 30 September 2024. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2023), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	Our response
Impairment allowances on loans to customers Risk vs 2023 ← → (£76.5 million; 2023: £73.6 million) *Refer to the Audit Committee Report, accounting policy note and notes 21 to 25 (financial disclosures).* **Subjective estimate** The measurement of expected credit losses ('ECL') involves significant judgements and estimates. The economic uncertainty in the UK economy has reduced, with lower volatility in rates of interest and inflation. However, there continues to be subjectivity in the estimate. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's estimation of ECL are: **Economic scenarios** – IFRS 9 requires the Group to measure ECL on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determine the economic scenarios, and the probability weightings assigned to each economic scenario. **Judgemental adjustments** – Management makes adjustments to the model-driven ECL results to address issues relating to model responsiveness or emerging trends relating to the current economic environment as well as risks not captured by the models. Such adjustments are inherently subjective and significant management judgement is involved in estimating these amounts. **Significant Increase in Credit Risk ('SICR')** – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12-month or lifetime provision is recorded. **Model estimations** – Inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The LGD model assumptions are the key drivers of the Group's ECL results and are therefore the most significant judgemental aspect of the Group's ECL modelling approach. In addition, there are unmodelled portfolios where judgement is involved in determining the ECL estimate. The effect of these matters is that, as part of our risk assessment, we determined that the impairment allowances on loans to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements disclose the sensitivities estimated by the Group (note 25). **Disclosure quality** The disclosures regarding the Group's application of IFRS 9 are important in explaining the key judgements and material inputs to the IFRS 9 ECL results, as well as the sensitivity of the ECL results to changes in these judgements or management's assumptions.	We performed the tests below rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: • **Our economics expertise:** We involved our own economic specialists, who assisted us in: - assessing the reasonableness of the Group's methodology for determining the economic scenarios used and the probability weightings applied to them; and - assessing the overall reasonableness of the economic forecasts by comparing the Group's forecasts to our own modelled forecasts and other benchmarks. • **Our credit risk modelling expertise:** We involved our own credit risk modelling team, who assisted us in: - evaluating the Group's impairment methodologies for compliance with IFRS 9; - for models which were changed or updated during the year, evaluating whether the changes or updates were appropriate by assessing the updated model methodology against the applicable accounting standard; - for a selection of models, assessing the reasonableness of the model predictions by reperforming the model monitoring to compare the predictions against actual results and evaluating the resulting differences; - evaluating the model output for a selection of models by independently rebuilding the model code in line with the corresponding model functionality and comparing our output with management's output; and - independently applying management's staging methodology and inspecting model code for the calculation of the ECL model to assess its consistency with the Group's approved staging criteria and the output of the model. • **Test of details:** Key aspects of our testing in addition to those set out above involved: - testing the key LGD assumptions impacting the Group's overall ECL model calculation to assess their reasonableness. This included performing sensitivity analysis to understand the significance of certain assumptions; and assessing the key assumptions against the Group's historical experience; - for a selection of portfolios, reperforming the calculation of the loan staging applied and comparing to management's staging outputs; and - for a selection of portfolios, reperforming the calculation of the LGD and the ECL measured on the loan portfolio. - For a selection of performing and credit-impaired loans within the unmodelled portfolios, assessing the reasonableness of the ECL measured.

Our response

- **Benchmarking assumptions:** Key aspects of our testing involved:
  - assessing the completeness of judgemental adjustments to the model-driven ECL by performing benchmarking to comparable peer group organisations and using our knowledge of the Group and its industry to challenge the completeness of risks addressed in the adjustments; and
  - testing the key LGD assumptions impacting the Group's overall ECL model calculation by comparing the Group's assumptions to those of comparable peer group organisations.
- **Sensitivity analysis:** We performed sensitivity analysis over the key assumptions including the economic scenarios and weightings as well as certain PD and LGD assumptions, by applying alternative assumptions.
- **Assessing transparency:** We assessed whether the disclosures appropriately reflect and address the uncertainty which exists when determining the Group's overall ECL. We assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgements and assumptions made was sufficiently clear.

Our results

As a result of our work, we found the impairment provision recognised and the related disclosures to be acceptable (2023: acceptable).

Key audit matter

Interest receivable on originated loan accounts

Risk vs 2023 ↓

(£819.8 million; 2023: £642.9 million)

Refer to the Audit Committee Report, accounting policy note and note 4 (financial disclosures).

Subjective estimate

The recognition of interest receivable on originated loan accounts under the effective interest rate ('EIR') method requires management to apply judgement, most critical of which are the loans' expected behavioural life assumption and the expected reversionary interest rate assumption.

The economic uncertainty in the UK economy has reduced, with lower volatility in rates of interest and inflation, reducing the risk on the estimate. However, there continues to be subjectivity in the estimate.

The Group determines its expected behavioural life assumptions and reversionary rate assumptions based on its forecasting processes which incorporates historical experience and judgement on what the future rates will be and what the customers will be expected to pay. This judgement extends significantly into the future which creates a high degree of estimation uncertainty and subjects the judgement to future market changes.

The cohorts of loans and advances for which the assumptions are most significant are buy-to-let products which were originated by the Group post 2010.

Our response

We performed the tests below rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures included:

- **Historical comparison:** We critically assessed the Group's analysis and key assumptions over the repayment profiles by comparing them to the Group's historical trends and actual portfolio behaviour. We also applied alternative repayment profiles based on our recalculations. The historical comparison included considering the potential impact of the current economic environment on the behavioural life assumptions.
- **Our sector experience:** We critically assessed key assumptions behind the Group's expected behavioural lives and reversionary interest rates against our own knowledge of industry experience and trends, including market rates.

Key audit matter

The effect of these matters is that, as part of our risk assessment, we determined that the EIR adjustment and corresponding interest receivable on originated loan accounts has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements disclose the sensitivities estimated by the Group (note 69).

Disclosure quality

The disclosures regarding the Group's application of EIR accounting are important in explaining the key judgements and material inputs to the EIR adjustment, as well as the sensitivity of the EIR adjustment to changes in these judgements or management's assumptions.

Our response

- **Sensitivity analysis:** We performed sensitivity analysis over the behavioural life profiles by applying alternative profiles incorporating the results from the above procedures. We also stressed the underlying reversionary rate assumption to evaluate the impact on the estimate.
- **Assessing transparency:** We assessed whether the disclosures appropriately reflect and address the estimation uncertainty which exists when determining the Group's EIR adjustments and interest receivable. We assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the critical estimates and assumptions made, was sufficiently clear.

Our results

As a result of our work, we found the interest receivable on originated loan accounts and the related disclosures to be acceptable (2023: acceptable).

Key audit matter

Recoverability of goodwill

Risk vs 2023 ← →

(£162.8 million; 2023: £162.8 million)

Refer to the Audit Committee Report, accounting policy note and note 31 (financial disclosures).

Forecast-based assessment

The carrying amount of goodwill is significant to the financial statements and there may be risks to its recoverability due to changes in market factors since acquisition. The estimated recoverable amount is subjective due to the inherent judgement involved in determining the assumptions used in the assessment. The most significant assumptions are considered to be the forecast future cash flows (projected income) and the discount rate.

The economic uncertainty in the UK economy has reduced, with lower volatility in rates of interest and inflation. However, there continues to be subjectivity in the assessment for recoverability of goodwill.

The effect of these matters is that, as part of our risk assessment, we determined that the recoverability of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 31) disclose the sensitivity estimated by the Group.

Disclosure quality

The disclosures regarding the Group's goodwill are important in explaining the key judgements and material inputs to the goodwill impairment assessment, as well as the sensitivity of the recoverable amount (and therefore the impairment conclusion) to changes in these judgements or management's assumptions.

Our response

We performed the tests below rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included:

- **Historical comparisons:** We compared the Group's previous cash flow forecasts to actual results to assess forecasting accuracy.
- **Benchmarking assumptions:** We compared the Group's assumptions to externally derived data in relation to key inputs such as discount rates and challenged management on the forecast business performance. This included considering the impact of uncertainties arising from the current economic environment in the forecasts.
- **Our industry experience:** We used our knowledge of the Group and our experience of the industry that the Group operates in to independently assess the appropriateness of the key assumptions, including the discount rate and cash flow forecasts. We involved our valuations specialists to independently assess the appropriateness of the discount rate and benchmark the rate against market participants' views.
- **Sensitivity analysis:** We performed break-even analysis and applied alternative scenarios considering the discount rates and sensitising the forecast future cash flows.
- **Assessing transparency:** We assessed whether the disclosures appropriately reflect and address the uncertainty which exists when determining the estimated recoverable amount. We assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgements and assumptions made, was sufficiently clear.

Our results

As a result of our work, we found the resulting carrying amount of goodwill and the related disclosures to be acceptable (2023: acceptable).

Key audit matter

Valuation of the retirement benefit pension obligation

Risk vs 2023 ← →

(£91.5 million, 2023: £89.3 million)

Refer to the Audit Committee Report, accounting policy note and note 60 (financial disclosures).

Subjective valuation

The Group operates a defined benefit pension scheme which has been closed to new members for several years. At year end, the Group holds a net retirement benefit scheme surplus on the balance sheet, which includes the gross pension obligations.

The valuation of the retirement benefit pension obligation is subjective due to the inherent judgement involved in determining the assumptions used in the assessment. Small changes in the assumptions and estimates used to value the Group's pension obligation (before deducting scheme assets) would have a significant effect on the Group's net defined benefit pension asset. The most significant assumptions are the discount rate, inflation rate and mortality rates / life expectancy.

The economic uncertainty in the UK economy has reduced, with lower volatility in rates of interest and inflation. However, there continues to be subjectivity in the assumptions used in the valuation of retirement benefit pension obligation.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the retirement benefit pension obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements disclose the sensitivity estimated by the Group (note 60).

Our response

We performed the tests below rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included:

- **Evaluation of actuary:** We evaluated the competence, independence and objectivity of the Group's actuary in assessing management's reliance upon their expert valuation services.
- **Our pensions actuarial expertise:** We critically assessed, using our own actuarial specialists, the key assumptions applied, such as the discount rate, inflation rate and mortality rates / life expectancy against externally derived data and internal experience.
- **Assessing transparency:** We assessed whether the disclosures appropriately reflect and address the uncertainty which exists when determining the valuation of the retirement benefit pension obligation. As a part of this, we assessed the sensitivity analysis that is disclosed.

Our results

As a result of our work, we found the valuation of the retirement benefit pension obligation and the related disclosures to be acceptable (2023: acceptable).

Key audit matter

Recoverability of Parent Company's investment in subsidiaries

Risk vs 2023 ← →

(£636.8 million; 2023: £637.4 million)

Refer to the accounting policy note and note 32 (financial disclosures).

Low risk, high value

The carrying amount of the parent company's investment in subsidiaries represents 67.3% (2023: 60.2%) of the parent company's total assets.

Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is the area that had the greatest effect on our overall parent company audit.

Our response

We performed the tests below rather than seeking to rely on the parent company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included:

- **Tests of detail:** We compared the carrying amount of 100% of the investments in subsidiaries with the relevant subsidiary's draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessed whether those subsidiaries have historically been profit-making.

Our results

We found the balance of the Company's investments in subsidiaries and the related impairment charge to be acceptable (2023: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £11.0 million (2023: £10.0 million) determined with reference to a benchmark of Group profit before tax, normalised to exclude fair value movements (2023: determined with reference to a benchmark of Group profit before tax normalised to exclude fair value movements and discontinuing operations from TBMC subsidiary closure costs). This materiality level represents 3.8% (2023: 3.6%) of the stated benchmark.

Materiality for the parent company financial statements as a whole was set at £7.0 million (2023: £7.0 million), determined with reference to a benchmark of current year net assets, of which it represents 1.0% (2023: 1.0%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2023: 75%) of materiality for the financial statements as a whole, which equates to £8.25 million (2023: £7.5 million) for the Group and £5.2 million (2023: £5.2 million) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.55 million (2023: £0.50 million), in addition to other identified misstatements that warranted reporting on qualitative grounds for the Group and £0.35 million (2023: £0.35m) for the parent company.

Of the Group's two (2023: two) reporting components, we subjected one (2023: one) to a full scope audit for group purposes. We conducted reviews of financial information (including enquiry) at a further one (2023: one) non-significant component as it was neither individually financially significant enough to require a full scope audit for group purposes, nor did it present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for 99.9% (2023: 99.9%) of total Group revenue, 98.8% (2023: 98.9%) of Group profit before tax, and 99.7% (2023: 99.8%) of Group total assets. The work on the two components was performed by the Group team. The Group team also performed procedures on the items excluded from normalised Group profit before tax.

We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

4. The impact of climate change on our audit

In planning our audit, we considered the potential impact of risks arising from climate change on the Group's business and its financial statements. The Group has set out its strategy regarding climate change, together with further information, in the Group's Environmental Impact section of the 2024 Annual Report, Section A6.4, on pages 66 to 81.

Climate change risks and opportunities, the Group's own commitments and changing regulations could have a significant impact on the Group's business and operations. There is the possibility that climate change risks, both physical and transitional, could affect financial statement balances through estimates such as credit risk and the forward-looking cash flows used in goodwill impairment assessments. There is enhanced narrative in the Annual Report on climate matters.

As part of our audit we performed a risk assessment of the impact of the climate change risk on the financial statements and our audit approach. As a part of this we held discussions with our own climate change professionals to challenge our risk assessment. In doing this we performed the following:

- **Understanding management's processes:** We made enquiries to understand management's assessment of the potential impact of climate change risk on the Group's Annual Report and the Group's preparedness for this. As a part of this we made enquiries to understand management's risk assessment process as it relates to the possible effects of climate change on the Annual Report.
- **Credit risk:** We assessed how the Group considers the impact of physical risks on the valuation of mortgage collateral. Specifically, we performed data and analytics-driven risk assessment procedures to understand the potential impact of flooding and subsidence on the valuation of mortgage collateral and made enquiries of management to understand how this is considered within its own collateral valuation process.
- **Forward looking estimates:** We considered how the Group's forward looking cash flows may be impacted within the relevant CGUs. As part of this, we made enquiries to understand management's own considerations and assessed the reasonableness of the forward-looking forecasts in the context of the business.
- **Annual Report narrative:** We made enquiries of management to understand the process by which climate-related narrative is developed including the primary sources of data used and the governance process in place over the narrative. As a part of our risk assessment, we read the climate-related information in the front half of the Annual Report and considered its consistency with the financial statements and our audit knowledge.

On the basis of the procedures performed above, taking into account the nature of the Group's lending exposures and the extent of the headroom of the recoverable amount over the carrying amount of the cash generating units, we concluded that, while climate change posed a risk to the determination of asset values in the current year, the risk was not significant when we considered the nature of the assets and the relevant contractual terms. As a result, there was no material impact from climate change on our key audit matters.

5. Going concern

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

We used our knowledge of the Group and Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The availability of funding and liquidity in the event of a market-wide stress scenario; and
- The impact on regulatory capital requirements in the event of an economic slowdown or recession.

We considered whether these risks could plausibly affect the liquidity and regulatory capital in the going concern period, by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's and Company's financial forecasts.

We considered whether the going concern disclosure in note 70 to the financial statements gives a full and accurate description of the directors' assessment of going concern. We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 70 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 70 to be acceptable; and
- the related statement under the Listing Rules set out in Section A5 on page 57 is materially consistent with the financial statements and our audit knowledge.

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

6. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors and Internal Audit as to whether they have knowledge of any actual, suspected or alleged fraud, and inspection of policy documentation around the Group's high-level policies and procedures to prevent and detect fraud, including the Internal Audit function, and the Group's internal channel for 'whistleblowing'.
- Reading Board, Audit Committee and Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors, including the Financial Performance metrics in the Annual Bonus and Performance Share Plan.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Involving our forensics professionals to assist with identifying fraud risks, as well as designing relevant audit procedures to respond to the identified fraud risks.

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

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, and the risk of fraudulent revenue recognition, in particular the risk that the EIR adjustment on interest income may be misstated, the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements including the impairment allowances on loans to customers and the recoverability of goodwill.

We also identified a fraud risk related to impairment allowance on loans to customers and the recoverability of goodwill due to the fact these involve significant estimation uncertainty and subjective judgements that are inherently uncertain.

Further detail in respect of impairment allowances on loans to customers, interest income on originated loans and the recoverability of goodwill is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and testing the identified high risk journal entries to supporting documentation. This included searching for those journals with specific key words in the description, journals posted by seldom users, journals posted without user IDs and unbalanced journal postings;
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

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

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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

In relation to the Court of Appeal judgment in the cases of Hopcraft, Wrench and Johnson on 25 October 2024 as well as the FCA's ongoing review of the historical use of discretionary commission arrangements across the motor finance industry, discussed in note 43, we assessed the Group's disclosures against our understanding from inspecting regulatory correspondence, involving our legal specialists and holding enquiries with the Group's internal legal counsel.

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

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

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

7. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the 'Future Prospects' section (Section A5) on page 56 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement, set out on page 57 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

8. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out in Section B10, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

The Company is required to include these financial statements in an annual financial report prepared under Disclosure Guidance and Transparency Rule 4.1.17R and 4.1.18R. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with those requirements.

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

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

Michael McGarry (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
3 December 2024

D.

The Accounts

Showing the financial position, results and cash flows of the Group and the Company prepared in accordance with IFRS and UK law

D1. Primary Financial Statements

D1.1 Consolidated statement of profit or loss

For the year ended 30 September 2024

	Note	**2024**	**2024**	2023	2023
		£m	**£m**	£m	£m
Interest receivable	*4*		**1,314.7**		1,010.6
Interest payable and similar charges	*5*		**(831.5)**		(561.7)
Net interest income			**483.2**		448.9
Other leasing income	*6*	**30.4**		27.4	
Related costs	*6*	**(24.2)**		(21.8)	
Net operating lease income		**6.2**		5.6	
Other income	*7*	**7.0**		11.5	
Other operating income			**13.2**		17.1
Total operating income			**496.4**		466.0
Operating expenses	*8*		**(179.2)**		(170.4)
Provisions for losses	*11*		**(24.5)**		(18.0)
Operating profit before fair value items			**292.7**		277.6
Fair value net (losses)	*12*		**(38.9)**		(77.7)
Operating profit being profit on ordinary activities before taxation			**253.8**		199.9
Tax charge on profit on ordinary activities	*13*		**(67.8)**		(46.0)
Profit on ordinary activities after taxation for the financial year			**186.0**		153.9

	Note	**2024**	2023
Earnings per share			
- basic	*15*	**88.5p**	68.7p
- diluted	*15*	**85.2p**	66.3p

The results for the current and preceding years relate entirely to continuing operations.

D1.2 Consolidated statement of comprehensive income

For the year ended 30 September 2024

	Note	2024 £m	2024 £m	2023 £m	2023 £m
Profit for the year			**186.0**		153.9
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Actuarial gain on pension scheme	*60*	**7.2**		2.4	
Tax thereon		**(1.8)**		(0.8)	
Other comprehensive income for the year net of tax			**5.4**		1.6
Total comprehensive income for the year			**191.4**		155.5

D1.3 Consolidated balance sheet

For the year ended 30 September 2024

	Note	**2024**	2023	2022
		£m	£m	£m
Assets				
Cash – central banks	*16*	**2,315.5**	2,783.3	1,612.5
Cash – retail banks	*16*	**209.9**	211.0	318.4
Investment securities	*17*	**427.4**	-	-
Loans to customers	*18*	**15,630.3**	14,495.0	13,650.4
Derivative financial assets	*26*	**391.8**	615.4	779.0
Sundry assets	*27*	**20.7**	51.0	39.2
Current tax assets	*28*	**9.7**	8.9	5.4
Retirement benefit obligations	*60*	**22.2**	12.7	7.1
Property, plant and equipment	*29*	**71.0**	74.7	71.4
Intangible assets	*30*	**171.5**	168.2	170.2
Total assets		**19,270.0**	18,420.2	16,653.6
Liabilities				
Short-term bank borrowings		**0.4**	0.2	0.4
Retail deposits	*33*	**16,314.7**	13,234.4	10,569.5
Derivative financial liabilities	*26*	**99.7**	39.9	102.1
Asset backed loan notes	*34*	**-**	28.0	409.3
Secured bank borrowings	*35*	**-**	-	586.0
Retail bond issuance	*36*	**-**	112.4	112.3
Corporate bond issuance	*37*	**149.9**	145.8	149.2
Central bank facilities	*38*	**755.0**	2,750.0	2,750.0
Sale and repurchase agreements	*39*	**100.0**	50.0	-
Sundry liabilities	*40*	**417.4**	631.2	513.1
Deferred tax liabilities	*44*	**13.4**	17.7	44.4
Total liabilities		**17,850.5**	17,009.6	15,236.3
Called up share capital	*45*	**210.6**	228.7	241.4
Reserves	*46*	**1,274.3**	1,257.5	1,223.9
Own shares	*47*	**(65.4)**	(75.6)	(48.0)
Total equity		**1,419.5**	1,410.6	1,417.3
Total liabilities and equity		**19,270.0**	18,420.2	16,653.6

Approved by the Board of Directors on 3 December 2024

Signed of behalf of the Board of Directors.

N S Terrington
Chief Executive

R J Woodman
Chief Financial Officer

D1.4 Company balance sheet

For the year ended 30 September 2024

	Note	2024	2023 (restated*)	2022 (restated*)
		£m	£m	£m
Assets				
Cash – retail banks	*16*	**18.3**	28.1	21.1
Sundry assets	*27*	**128.6**	228.7	39.2
Deferred tax assets	*44*	**-**	1.6	-
Property, plant and equipment	*29*	**11.8**	13.2	14.6
Investment in subsidiary undertakings	*32*	**786.8**	787.5	895.7
Total assets		**945.5**	1,059.1	970.6
Liabilities				
Retail bond issuance	*36*	**-**	112.4	112.3
Corporate bond issuance	*37*	**149.6**	149.4	149.2
Sundry liabilities	*40*	**61.4**	38.4	51.1
Current tax liabilities	*28*	**-**	1.8	-
Deferred tax liabilities	*44*	**0.1**	-	0.1
Total liabilities		**211.1**	302.0	312.7
Called up share capital	*45*	**210.6**	228.7	241.4
Reserves	*46*	**589.2**	604.0	464.5
Own shares	*47*	**(65.4)**	(75.6)	(48.0)
Total equity		**734.4**	757.1	657.9
		945.5	1,059.1	970.6

* Restated as described in note 66

Approved by the Board of Directors on 3 December 2024.

Signed of behalf of the Board of Directors.

N S Terrington
Chief Executive

R J Woodman
Chief Financial Officer

D1.5 Consolidated cash flow statement

For the year ended 30 September 2024

	Note	2024	2023
		£m	£m
Net cash generated by operating activities	*49*	**2,216.4**	2,171.7
Net cash (utilised) by investing activities	*50*	**(424.7)**	(3.1)
Net cash (utilised) by financing activities	*51*	**(2,260.8)**	(1,105.0)
Net (decrease) / increase in cash and cash equivalents		**(469.1)**	1,063.6
Opening cash and cash equivalents		**2,994.1**	1,930.5
Closing cash and cash equivalents		**2,525.0**	2,994.1
Represented by balances within:			
Cash	*16*	**2,525.4**	2,994.3
Short-term bank borrowings		**(0.4)**	(0.2)
		2,525.0	2,994.1

D1.6 Company cash flow statement

For the year ended 30 September 2024

	Note	2024	2023 (restated)
		£m	£m
Net cash generated by operating activities	*49*	**276.3**	85.8
Net cash generated by investing activities	*50*	**-**	107.0
Net cash (utilised) by financing activities	*51*	**(286.1)**	(185.8)
Net (decrease) / increase in cash and cash equivalents		**(9.8)**	7.0
Opening cash and cash equivalents		**28.1**	21.1
Closing cash and cash equivalents		**18.3**	28.1
Represented by balances within:			
Cash	*16*	**18.3**	28.1
Short-term bank borrowings		**-**	-
		18.3	28.1

D1.7 Consolidated statement of movements in equity

For the year ended 30 September 2024

	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m	Own shares £m	Total equity £m
Transactions arising from							
Profit for the year	**-**	**-**	**-**	**-**	**186.0**	**-**	**186.0**
Other comprehensive income	**-**	**-**	**-**	**-**	**5.4**	**-**	**5.4**
Total comprehensive income	**-**	**-**	**-**	**-**	**191.4**	**-**	**191.4**
Transactions with owners							
Dividends paid (note 48)	**-**	**-**	**-**	**-**	**(83.5)**	**-**	**(83.5)**
Own shares purchased	**-**	**-**	**-**	**-**	**-**	**(89.5)**	**(89.5)**
Irrevocable instruction accrual	**-**	**-**	**-**	**-**	**-**	**(23.8)**	**(23.8)**
Exercise of share awards	**-**	**-**	**-**	**-**	**(12.8)**	**13.5**	**0.7**
Shares cancelled	**(18.1)**	**-**	**18.1**	**-**	**(110.0)**	**110.0**	**-**
Capital reorganisation	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Charge for share based remuneration (note 57)	**-**	**-**	**-**	**-**	**9.2**	**-**	**9.2**
Tax on share based remuneration	**-**	**-**	**-**	**-**	**4.4**	**-**	**4.4**
Net movement in equity in the year	**(18.1)**	**-**	**18.1**	**-**	**(1.3)**	**10.2**	**8.9**
Opening equity	**228.7**	**71.4**	**12.9**	**(70.2)**	**1,243.4**	**(75.6)**	**1,410.6**
Closing equity	**210.6**	**71.4**	**31.0**	**(70.2)**	**1,242.1**	**(65.4)**	**1,419.5**

For the year ended 30 September 2023

	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m	Own shares £m	Total equity £m
Transactions arising from							
Profit for the year	-	-	-	-	153.9	-	153.9
Other comprehensive income	-	-	-	-	1.6	-	1.6
Total comprehensive income	-	-	-	-	155.5	-	155.5
Transactions with owners							
Dividends paid (note 48)	-	-	-	-	(67.9)	-	(67.9)
Own shares purchased	-	-	-	-	-	(120.5)	(120.5)
Irrevocable instruction accrual	-	-	-	-	-	10.8	10.8
Exercise of share awards	0.2	0.3	-	-	(11.4)	14.8	3.9
Shares cancelled	(12.9)	-	12.9	-	(67.3)	67.3	-
Capital reorganisation	-	-	(71.8)	-	71.8	-	-
Charge for share based remuneration (note 57)	-	-	-	-	9.6	-	9.6
Tax on share based remuneration	-	-	-	-	1.9	-	1.9
Net movement in equity in the year	(12.7)	0.3	(58.9)	-	92.2	(27.6)	(6.7)
Opening equity	241.4	71.1	71.8	(70.2)	1,151.2	(48.0)	1,417.3
Closing equity	228.7	71.4	12.9	(70.2)	1,243.4	(75.6)	1,410.6

D1.8 Company statement of movements in equity

For the year ended 30 September 2024

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Profit and loss account	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m
Transactions arising from							
Profit for the year	-	-	-	-	**164.4**	-	**164.4**
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	**164.4**	-	**164.4**
Transactions with owners							
Dividends paid (note 48)	-	-	-	-	**(83.5)**	-	**(83.5)**
Own shares purchased	-	-	-	-	-	**(89.5)**	**(89.5)**
Irrevocable instruction accrual	-	-	-	-	-	**(23.8)**	**(23.8)**
Exercise of share awards	-	-	-	-	**(12.8)**	**13.5**	**0.7**
Shares cancelled	**(18.1)**	-	**18.1**	-	**(110.0)**	**110.0**	-
Capital reorganisation	-	-	-	-	-	-	-
Charge for share based remuneration (note 57)	-	-	-	-	**9.2**	-	**9.2**
Tax on share-based remuneration	-	-	-	-	**(0.2)**	-	**(0.2)**
Net movement in equity in the year	**(18.1)**	-	**18.1**	-	**(32.9)**	**10.2**	**(22.7)**
Opening equity							
As originally reported	**228.7**	**71.4**	**12.9**	**(23.7)**	**521.8**	**(54.0)**	**757.1**
Change in accounting policy (note 66)	-	-	-	-	**21.6**	**(21.6)**	-
As restated	**228.7**	**71.4**	**12.9**	**(23.7)**	**543.4**	**(75.6)**	**757.1**
Closing equity	**210.6**	**71.4**	**31.0**	**(23.7)**	**510.5**	**(65.4)**	**734.4**

For the year ended 30 September 2023 (restated)

	£m	£m	£m	£m	£m	£m	£m
Transactions arising from							
Profit for the year	-	-	-	-	263.3	-	263.3
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	263.3	-	263.3
Transactions with owners							
Dividends paid (note 48)	-	-	-	-	(67.9)	-	(67.9)
Own shares purchased	-	-	-	-	-	(120.5)	(120.5)
Irrevocable instruction accrual	-	-	-	-		10.8	10.8
Exercise of share awards	0.2	0.3	-	-	(11.4)	14.8	3.9
Shares cancelled	(12.9)	-	12.9	-	(67.3)	67.3	-
Capital reorganisation	-	-	(71.8)	-	71.8	-	-
Charge for share based remuneration (note 57)	-	-	-	-	9.6	-	9.6
Tax on share-based remuneration	-	-	-	-	-	-	-
Net movement in equity in the year	(12.7)	0.3	(58.9)	-	198.1	(27.6)	99.2
Opening equity							
As originally reported	241.4	71.1	71.8	(23.7)	326.3	(29.0)	657.9
Change of accounting policy (note 66)	-	-	-	-	19.0	(19.0)	-
As restated	241.4	71.1	71.8	(23.7)	345.3	(48.0)	657.9
Closing equity	228.7	71.4	12.9	(23.7)	543.4	(75.6)	757.1

D2. Notes to the Accounts

For the year ended 30 September 2024

1. General information

Paragon Banking Group PLC (the 'Company') is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 2006 with company number 2336032. The Company controls a number of subsidiary entities and presents financial statements on a consolidated basis for the Company and all its subsidiaries (together the 'Group'). The address of the Company's registered office is 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Group's operations and its principal activities are set out in the Strategic Report in Section A2.

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

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

- Analysis – providing further analysis and information on the amounts shown in the primary financial statements
- Employment Costs – providing information on employee and key management remuneration arrangements including share schemes and pension arrangements
- Capital and Financial Risk – providing information on the Group's management of operational and regulatory capital and its principal financial risks
- Basis of preparation – providing details of the Group's accounting policies and of how they have been applied in the preparation of the financial statements

D2.1 Notes to the Accounts – Analysis

For the year ended 30 September 2024

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

2. Segmental information

The Group analyses its operations, both for internal management reporting and external financial reporting, on the basis of the markets from which its assets are generated. The segments used at 30 September 2024 are described below:

- Mortgage Lending, including the Group's buy-to-let, and owner-occupied first and second charge lending and related activities
- Commercial Lending, including the Group's equipment leasing activities, development finance, structured lending and other offerings targeted towards SME customers, together with its motor finance business

These segments are the same as those used at 30 September 2023.

Dedicated financing and administration costs of each of these businesses, including the interest impacts of fair value hedging, are allocated to the segment. Shared central costs are not allocated between segments, nor is income from central cash balances or the carrying costs of unallocated savings balances.

Loans to customers and operating lease assets (other than those related to the internal green car scheme (note 54)) are allocated to segments as are dedicated securitisation funding arrangements and their related cash balances.

Retail deposits and their related costs are allocated to the segments based on the utilisation of those deposits. Retail deposits raised in advance of lending are not allocated.

Other assets and liabilities are not allocated between segments.

All the Group's operations are conducted in the UK, all revenues arise from external customers and there are no inter-segment revenues. No customer contributes more than 10% of the revenue of the Group.

Financial information about these business segments, prepared on the same basis as used in the consolidated accounts of the Group, is shown below.

Year ended 30 September 2024

	Mortgage Lending £m	Commercial Lending £m	Unallocated items £m	Total £m
Interest receivable	**914.9**	**234.7**	**165.1**	**1,314.7**
Interest payable	**(632.6)**	**(109.9)**	**(89.0)**	**(831.5)**
Net interest income	**282.3**	**124.8**	**76.1**	**483.2**
Other leasing income	**-**	**30.1**	**0.3**	**30.4**
Related costs	**-**	**(24.0)**	**(0.2)**	**(24.2)**
Net operating lease income	**-**	**6.1**	**0.1**	**6.2**
Other income	**3.8**	**3.2**	**-**	**7.0**
Other operating income	**3.8**	**9.3**	**0.1**	**13.2**
Total operating income	**286.1**	**134.1**	**76.2**	**496.4**
Operating expenses	**(22.8)**	**(26.9)**	**(129.5)**	**(179.2)**
Provisions for losses	**(5.6)**	**(18.9)**	**-**	**(24.5)**
Segment profit	**257.7**	**88.3**	**(53.3)**	**292.7**

Year ended 30 September 2023

	Mortgage Lending £m	Commercial Lending £m	Unallocated items £m	Total £m
Interest receivable	713.6	207.4	89.6	1,010.6
Interest payable	(436.0)	(71.7)	(54.0)	(561.7)
Net interest income	277.6	135.7	35.6	448.9
Other leasing income	-	27.3	0.1	27.4
Related costs	-	(21.7)	(0.1)	(21.8)
Net operating lease income	-	5.6	-	5.6
Other income	5.6	5.9	-	11.5
Other operating income	5.6	11.5	-	17.1
Total operating income	283.2	147.2	35.6	466.0
Operating expenses	(26.2)	(26.4)	(117.8)	(170.4)
Provisions for losses	(10.4)	(7.6)	-	(18.0)
Segment profit	246.6	113.2	(82.2)	277.6

The segmental profits disclosed above reconcile to the Group results as shown below.

	2024 £m	2023 £m
Results shown above	**292.7**	277.6
Fair value items	**(38.9)**	(77.7)
Operating profit	**253.8**	199.9

The assets and liabilities attributable to each of the segments at 30 September 2024, 30 September 2023 and 30 September 2022 on the basis described above were:

	Note	**Mortgage Lending £m**	**Commercial Lending £m**	**Total Segments £m**
30 September 2024				
Segment assets				
Loans to customers	*18*	**13,415.7**	**2,289.8**	**15,705.5**
Operating lease assets	*29*	**-**	**43.9**	**43.9**
Securitisation cash	*16*	**107.9**	**-**	**107.9**
		13,523.6	**2,333.7**	**15,857.3**
Segment liabilities				
Allocated deposits		**13,829.3**	**2,509.9**	**16,339.2**
Securitisation funding		**-**	**-**	**-**
		13,829.3	**2,509.9**	**16,339.2**

	Note	**Mortgage Lending £m**	**Commercial Lending £m**	**Total Segments £m**
30 September 2023				
Segment assets				
Loans to customers	*18*	12,902.3	1,972.0	14,874.3
Operating lease assets	*29*	-	44.3	44.3
Securitisation cash	*16*	86.1	-	86.1
		12,988.4	2,016.3	15,004.7
Segment liabilities				
Allocated deposits		13,160.4	2,199.4	15,359.8
Securitisation funding		28.0	-	28.0
		13,188.4	2,199.4	15,387.8

	Note	**Mortgage Lending £m**	**Commercial Lending £m**	**Total Segments £m**
30 September 2022				
Segment assets				
Loans to customers	*18*	12,328.7	1,881.6	14,210.3
Operating lease assets	*29*	-	41.6	41.6
Securitisation cash	*16*	240.5	-	240.5
		12,569.2	1,923.2	14,492.4
Segment liabilities				
Allocated deposits		11,864.7	2,193.7	14,058.4
Securitisation funding		995.3	-	995.3
		12,860.0	2,193.7	15,053.7

An analysis of the Group's financial assets by type and segment is shown in note 18. All the assets shown above were located in the UK.

The additions to non-current assets, excluding financial assets, in the year which are included in segmental assets above, are investments of £13.1m (2023: £15.3m) in assets held for leasing under operating leases (note 29). These are included in the Commercial Lending segment. No other fixed asset additions were allocated to segments.

The segmental assets and liabilities may be reconciled to the consolidated balance sheet as shown below.

	2024	2023
	£m	£m
Total segment assets	**15,857.3**	15,004.7
Unallocated assets		
Central cash and investments	**2,844.9**	2,908.2
Derivative financial instruments	**391.8**	615.4
Fair value hedging adjustments	**(75.2)**	(379.3)
Operational property, plant and equipment	**27.1**	30.4
Retirement benefit obligations	**22.2**	12.7
Intangible assets	**171.5**	168.2
Other	**30.4**	59.9
Total assets	**19,270.0**	18,420.2

	2024	2023
	£m	£m
Total segment liabilities	**16,339.2**	15,387.8
Unallocated liabilities		
Unallocated retail deposits	**(41.2)**	(2,094.5)
Derivative financial instruments	**99.7**	39.9
Central borrowings	**1,005.3**	3,058.4
Tax liabilities	**13.4**	17.7
Other	**434.1**	600.3
Total liabilities	**17,850.5**	17,009.6

3. Revenue

	Note	**2024**	2023
		£m	£m
Interest receivable	*4*	**1,314.7**	1,010.6
Operating lease income	*6*	**30.4**	27.4
Other income	*7*	**7.0**	11.5
Total revenue		**1,352.1**	1,049.5
Arising from:			
Mortgage Lending		**918.7**	719.2
Commercial Lending		**268.0**	240.6
Total revenue from segments		**1,186.7**	959.8
Unallocated revenue		**165.4**	89.7
Total revenue		**1,352.1**	1,049.5

4. Interest receivable

Interest receivable is analysed as follows.

	Note	2024 £m	2023 £m
Interest receivable in respect of			
Loans and receivables		**819.8**	642.9
Finance leases		**73.4**	59.6
Invoice finance income		**5.8**	4.3
Interest on loans to customers		**899.0**	706.8
Effect of fair value hedging of loan assets		**245.8**	210.0
Interest on loans to customers after hedging		**1,144.8**	916.8
Pension scheme surplus	*60*	**0.8**	0.4
Investment securities		**8.0**	-
Effect of fair value hedging of securities		**2.4**	-
Other interest receivable		**158.7**	93.4
Total interest on financial assets		**1,314.7**	1,010.6

The above amounts relate to:

	2024 £m	2023 £m
Financial assets held at amortised cost	**992.3**	740.6
Finance leases	**73.4**	59.6
Pension scheme surplus	**0.8**	0.4
Derivative financial instruments held at fair value	**248.2**	210.0
	1,314.7	1,010.6

Other interest receivable relates principally to cash deposits at central and retail banks.

5. Interest payable and similar charges

	Note	2024	2023
		£m	£m
On financial liabilities			
Retail deposits		**667.0**	334.1
Effect of fair value hedging of deposits		**33.6**	54.4
Interest on retail deposits after hedging		**700.6**	388.5
Asset backed loan notes		**2.6**	10.9
Bank loans and overdrafts		**14.1**	34.8
Corporate bonds		**6.6**	6.6
Effect of fair value hedging of bonds		**1.8**	0.6
Retail bonds		**5.7**	6.5
Central bank facilities		**95.2**	111.9
Sale and repurchase agreements		**4.0**	0.7
Total interest on financial liabilities		**830.6**	560.5
Discounting on lease liabilities		**0.3**	0.3
Other finance costs		**0.6**	0.9
		831.5	561.7

The above amounts relate to:

	2024	2023
	£m	£m
Financial liabilities held at amortised cost	**795.2**	505.5
Derivative financial instruments held at fair value	**35.4**	55.0
Other items	**0.9**	1.2
	831.5	561.7

Amounts payable in respect of bank loans and overdrafts include interest and fees payable in respect of collateral amounts received in respect of derivative financial instruments (note 40).

6. Net operating lease income

	Note	2024	2023
		£m	£m
Income			
Operating lease rentals		**21.3**	19.5
Maintenance income		**9.1**	7.9
Total operating lease income		**30.4**	27.4
Costs			
Depreciation of lease assets	*29*	**(11.6)**	(10.7)
Maintenance salaries	*57*	**(3.7)**	(3.2)
Other maintenance costs		**(8.9)**	(7.9)
Total operating lease costs		**(24.2)**	(21.8)
Net operating lease income		**6.2**	5.6

7. Other income

	2024 £m	2023 £m
Loan account fee income	**4.5**	4.8
Broker commissions	**1.6**	2.1
Third party servicing	**0.7**	4.3
Other income	**0.2**	0.3
	7.0	11.5

All loan account fee income arises from financial assets held at amortised cost.

8. Operating expenses

	Note	2024 £m	2023 £m
Employment costs	*57*	**111.1**	108.3
Auditor remuneration	*9*	**3.6**	2.9
Bank of England Levy		**2.1**	-
Amortisation of intangible assets	*30*	**1.2**	1.8
Depreciation of operational assets	*29*	**5.4**	3.9
TBMC closure	*10*	**-**	2.0
Restructuring costs		**-**	2.6
Other administrative costs		**55.8**	48.9
		179.2	170.4

Restructuring costs in 2023 arose from a strategic review of the Group's operational structures and resources carried out in the year and include consultancy costs and redundancy-related expenses.

The Bank of England Levy was introduced from 1 March 2024. Accounting standards require that the Levy is accounted for in full on the first day of each annual Levy period.

The Group incurred no costs in respect of short-term operating leases in the year (2023: none).

9. Auditor remuneration

The analysis of fees payable to the Company's auditors (KPMG LLP) and their associates, excluding irrecoverable VAT, required by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 is set out below.

	2024	2023
	£m	£m
Audit fee of the company	**1.1**	0.7
Other services		
Audit of subsidiary undertakings pursuant to legislation	**1.7**	1.5
Total audit fees	**2.8**	2.2
Audit related assurance services		
Interim review	**0.2**	0.2
Other	**-**	-
Total fees	**3.0**	2.4
Irrecoverable VAT	**0.6**	0.5
Total cost to the Group (note 8)	**3.6**	2.9

Fees paid to the auditors and their associates for non-audit services to the Company are not disclosed because the consolidated accounts of the Group are required to disclose such fees on a consolidated basis.

10. TBMC closure

During the year ended 30 September 2023, after a review of strategic priorities, the Group announced the closure of its TBMC mortgage brokerage business, which it considered to be non-core. As a result of this decision the remaining goodwill balance of the TBMC CGU and the other intangible assets relating to the business were derecognised.

The total amount expensed to the profit and loss account on the closure is set out below.

	Note	2023
		£m
Goodwill derecognised	*30*	**1.6**
Intangible assets derecognised	*30*	**0.2**
Other closure costs		**0.2**
Total closure costs	*8*	**2.0**

The contribution to profit of the closed business in that year, which was included in the Mortgage Lending segment, was a loss of £0.5m excluding the costs shown above.

11. Loan impairments provisions charged to income

The amounts charged to the profit and loss account in the year are analysed as follows.

	Mortgage Lending £m	Commercial Lending £m	Total £m
30 September 2024			
Provided in period (note 23)	**6.0**	**20.4**	**26.4**
Recovery of written off amounts	**(0.4)**	**(1.5)**	**(1.9)**
	5.6	**18.9**	**24.5**
Of which			
Loan accounts	**5.6**	**17.9**	**23.5**
Finance leases	**-**	**1.0**	**1.0**
	5.6	**18.9**	**24.5**
30 September 2023			
Provided in period (note 23)	10.8	8.3	19.1
Recovery of written off amounts	(0.4)	(0.7)	(1.1)
	10.4	7.6	18.0
Of which			
Loan accounts	10.4	10.5	20.9
Finance leases	-	(2.9)	(2.9)
	10.4	7.6	18.0

12. Fair value net (losses)

	2024 £m	2023 £m
Ineffectiveness of fair value hedges (note 26)		
Portfolio hedges of interest rate risk		
Deposit hedge	**7.3**	7.8
Loan hedge	**(3.1)**	(23.7)
	4.2	(15.9)
Individual hedges of interest rate risk	**-**	-
	4.2	(15.9)
Other hedging movements	**(26.2)**	(53.5)
Net (losses) on other derivatives	**(16.9)**	(8.3)
Total net (loss)	**(38.9)**	(77.7)

The fair value net (loss) represents the accounting volatility on derivative instruments which are matching risk exposures on an economic basis, generated by the requirements of IAS 39. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The losses and gains are primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities. Such differences will reverse over time and have no impact on the cash flows of the Group.

The impact of hedging arrangements on the Group's balance sheet is summarised in note 26 which also provides a full description of the Group's use of derivative financial instruments for hedging purposes.

13. Tax charge on profit on ordinary activities

(a) Analysis of charge in the year

	2024 £m	2023 £m
Current tax		
UK Corporation Tax on profits of the period	**75.4**	73.6
Adjustment in respect of prior periods	**(4.5)**	(1.1)
Total current tax	**70.9**	72.5
Deferred tax (note 44)	**(3.1)**	(26.5)
Tax charge on profit on ordinary activities	**67.8**	46.0

The standard rate of corporation tax in the UK applicable to the Group in the year was 25.0% (2023: 22.0%), based on legislation enacted at the year end. During the year ended 30 September 2021, the UK Government enacted legislation increasing the standard rate of corporation tax in the UK from 19.0% to 25.0% from April 2023. The effect of these changes on deferred tax balances was accounted for in the year ended 30 September 2021.

The Bank Corporation Tax Surcharge subjects any taxable profits arising in the Group's banking subsidiary, Paragon Bank PLC (and no other Group entity), to an additional rate of tax to the extent these profits exceed a threshold. The effect of the surcharge shown in note (b) below.

In the financial year ended 30 September 2022 the UK Government enacted legislation reducing the rate of the Banking Surcharge from 8.0% to 3.0%, from April 2023, while increasing the profit threshold at which the surcharge applies to £100.0m from £25.0m. This has resulted in the surcharge applying to Paragon Bank in the current year reducing to 3.0% on earnings over £100.0m. The impact of this change on deferred tax balances was accounted for in the year ended 30 September 2022. The combination of the standard rate of tax and the surcharge results in taxable profits in excess of the annual threshold arising in Paragon Bank being taxed at 28.0% in the current year (2023: 27.5%).

(b) Factors affecting tax charge for the year

Accounting standards require companies to explain the relationship between tax expense and accounting profit. This may be demonstrated by reconciling the tax charge to the product of the accounting profit and the 'applicable rate', generally the domestic rate of tax levied on corporate income in the jurisdiction in which the entity operates.

The Group operates wholly in the UK and all the Group's income arises in UK resident companies. Consequently, it is appropriate to use the prevailing UK corporation tax rate as the comparator to the effective tax rate. As noted in (a) above, the UK corporation tax rate applicable to the Group for the year was 25.0% (2023: 22.0%).

The impact of the Banking Surcharge is shown as a difference between tax at this rate and the actual tax charge in the table below.

	2024 £m	2023 £m
Profit on ordinary activities before taxation	**253.8**	199.9
Profit on ordinary activities multiplied by the UK standard rate of corporation tax	**63.5**	44.0
Effects of:		
Permanent differences		
Recurring disallowable expenditure and similar items	**0.2**	0.5
Mismatch in timing differences	**1.4**	(1.3)
Change in rate of taxation on current and deferred tax (excluding Bank Surcharge)	**-**	(2.1)
Impact of Bank Surcharge on current and deferred tax	**1.1**	5.1
Prior year charge	**1.6**	(0.2)
Tax charge for the year	**67.8**	46.0

The timing difference mismatch arises because tax relief for share based payments is given on a different basis from that on which the accounting charge for the provision of these awards is recognised under IFRS 2.

Change in rate of taxation includes the effect of providing for deferred tax balances at rates other than the comparator rate. This includes deferred tax provision on fair value movements in the year, which form the largest part of this balance.

(c) Factors affecting future tax charges

No legislation which will have the effect of changing the rates of tax applicable to the Group from those shown above has currently been enacted. However, the future direction of UK tax policy will significantly affect the tax payable by the Group, and this remains uncertain.

The Group's overall future effective tax rate will also be impacted by the future level of the Surcharge and by the proportion of its taxable profit subject to it.

Various asset leasing businesses are included within the Group's Commercial Lending division. Whilst such businesses do not, in general, have significant permanent differences, the taxable profits in a given accounting period are usually significantly different from the accounting profits due to temporary differences.

At the balance sheet date there were no material tax uncertainties and no significant open matters with the UK tax authorities. The Group has no material exposure to any other tax jurisdiction.

As a wholly UK based business the Group does not expect to be significantly impacted by the OECD project on Base Erosion and Profit Shifting ('BEPS').

14. Profit attributable to members of Paragon Banking Group PLC

The Company's profit after tax for the financial year amounted to £164.4m (2023: £263.3m – restated (note 66)). A separate income statement has not been prepared for the Company under the provisions of Section 408 of the Companies Act 2006.

The Company has no other items of comprehensive income for the years ended 30 September 2024 or 30 September 2023.

15. Earnings per share

Earnings per ordinary share is calculated as follows:

	2024	2023
Profit for the year (£m)	**186.0**	153.9
Basic weighted average number of ordinary shares ranking for dividend during the year (m)	**210.1**	224.1
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (m)	**8.3**	8.0
Diluted weighted average number of ordinary shares ranking for dividend during the year (m)	**218.4**	232.1
Earnings per ordinary share		
- basic	**88.5p**	68.7p
- diluted	**85.2p**	66.3p

16. Cash and cash equivalents

'Cash and Cash Equivalents' includes current bank balances, money market placements and fixed rate sterling term deposits with London banks, and balances with the Bank of England. It is analysed as set out below.

	2024	2023	2022
	£m	£m	£m
Deposits with the Bank of England	**2,315.5**	2,783.3	1,612.5
Balances with central banks	**2,315.5**	2,783.3	1,612.5
Deposits with other banks	**209.9**	211.0	318.4
Balances with other banks	**209.9**	211.0	318.4
Cash and cash equivalents	**2,525.4**	2,994.3	1,930.9

Not all of the Group's cash is immediately available for its general purposes, including liquidity management. Cash received in respect of loan assets funded through warehouse facilities and securitisations is not immediately available, due to the terms of those arrangements. This cash is shown as 'securitisation cash' below.

Cash held by the Trustee of the Group's employee share ownership plan ('ESOP') may only be used to invest in the shares of the Company, pursuant to the aims of that plan. This is shown as 'ESOP cash' below.

The total 'Cash and Cash Equivalents' balance may be analysed as shown below:

	2024	2023	2022
	£m	£m	£m
The Group			
Available cash	**2,417.4**	2,907.7	1,689.1
Securitisation cash	**107.9**	86.1	240.5
ESOP cash	**0.1**	0.5	1.3
	2,525.4	2,994.3	1,930.9

	2024	2023 (restated)	2022 (restated)
	£m	£m	£m
The Company			
Available cash	**18.2**	27.6	19.8
ESOP cash	**0.1**	0.5	1.3
	18.3	28.1	21.1

Cash and cash equivalents are classified as Stage 1 exposures (see note 22) for the purposes of impairment provisioning. The probabilities of default have been assessed to be so low as to require no significant impairment provision.

17. Investment securities

The Group's investment securities, which are held as part of Paragon Bank's liquidity buffer, are analysed as follows:

	Principal amount		**Carrying value**	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
UK Government securities	**400.0**	-	**404.4**	-
Covered bonds	**23.0**	-	**23.0**	-
	423.0	-	**427.4**	-

The UK Government securities ('gilts') bear interest at a fixed rate, the average maturity of the gilts is 20.5 years, and the average fixed rate coupon is 4.5%. Hedging arrangements in respect of these securities are described in note 26.

The covered bonds are issued by UK financial institutions, are denominated in sterling and bear interest at a variable rate of interest based on SONIA. The average maturity of the covered bonds is 5.0 years and the average interest margin above SONIA is 0.51%.

All the investment securities bear credit risk and are classified as Stage 1 exposures (see note 22 for IFRS 9 impairment purposes. As the securities are UK sovereign exposures, or secured exposures to UK financial institutions, the probability of default has been assessed to be so low that no significant impairment provision is required.

While the securities are available to use as security against funding arrangements, such as sale and repurchase transactions, none were used in this way at 30 September 2024.

18. Loans to customers

The Group's loans to customers at 30 September 2024, analysed between the segments described in note 2 are as follows:

	Note	**2024**	2023	2022
		£m	£m	£m
First mortgages		**13,299.6**	12,747.8	12,122.4
Second charge mortgages		**116.1**	154.5	206.3
Total Mortgage Lending		**13,415.7**	12,902.3	12,328.7
Finance lease receivables	*19*	**995.6**	907.3	825.2
Development finance		**884.0**	747.8	719.9
Other secured commercial lending		**320.8**	227.6	238.1
Other commercial loans		**89.4**	89.3	98.4
Total Commercial Lending		**2,289.8**	1,972.0	1,881.6
Loans to customers		**15,705.5**	14,874.3	14,210.3
Fair value adjustments from portfolio hedging	*26*	**(75.2)**	(379.3)	(559.9)
		15,630.3	14,495.0	13,650.4

Other secured commercial lending includes structured lending, aviation mortgages and invoice finance.

Other commercial loans includes principally professions finance, discounted receivables, term loans issued under schemes sponsored by the British Business Bank ('BBB') and other short term commercial balances.

The Group's purchased loan portfolios are analysed below.

	2024	2023
	£m	£m
First mortgage loans	**5.1**	9.6
Consumer loans	**36.0**	49.0
Motor finance loans	**-**	0.2
	41.1	58.8

Information on the Estimated Remaining Collections ('ERCs'), the undiscounted forecast collectible amounts, for first mortgages and consumer loans is given in note 63. All other loans above are internally generated or arise from acquired operations.

The amounts of the Group's first mortgage assets pledged as collateral under the central bank facilities described in note 38 or under the securitisation and warehouse funding arrangements described in notes 34 and 35 are shown below. These include notes retained by the Group described in note 64. The table also shows assets prepositioned with the Bank of England for use in future drawings.

	2024	2023	2022
	£m	£m	£m
Pledged as collateral in respect of			
Asset backed loan notes	**2,108.7**	1,529.5	2,099.8
Warehouse facilities	**-**	-	850.8
Central bank facilities	**1,097.8**	4,109.0	3,790.9
Total pledged as collateral	**3,206.5**	5,638.5	6,741.5
Prepositioned with Bank of England	**6,571.3**	2,568.7	2,675.5
Other first mortgage assets	**3,521.8**	4,540.6	2,705.4
Total first mortgage assets	**13,299.6**	12,747.8	12,122.4

No assets of other classes were pledged as collateral at 30 September 2024, 30 September 2023 or 30 September 2022.

19. Finance lease receivables

The Group's finance leases can be analysed as shown below.

	2024	2023	2022
	£m	£m	£m
Motor finance	**331.4**	297.7	261.3
Asset finance	**633.2**	559.1	498.8
BBB sponsored schemes	**31.0**	50.5	65.1
Carrying value	**995.6**	907.3	825.2

The minimum lease payments due under these loan agreements are:

	2024	2023	2022
	£m	£m	£m
Amounts receivable			
Within one year	**279.4**	318.5	284.7
Within one to two years	**285.0**	269.9	244.4
Within two to three years	**255.4**	218.7	189.5
Within three to four years	**190.9**	143.5	136.5
Within four to five years	**104.8**	67.1	60.5
After five years	**104.1**	60.2	46.2
	1,219.6	1,077.9	961.8
Less: future finance income	**(213.1)**	(158.1)	(119.8)
Present value	**1,006.5**	919.8	842.0

The present values of those payments, net of provisions for impairment, carried in the accounts are:

	2024	2023	2022
	£m	£m	£m
Amounts receivable			
Within one year	**230.5**	272.9	248.7
Within two to five years	**690.5**	597.0	554.0
After five years	**85.5**	49.9	39.3
Present value	**1,006.5**	919.8	842.0
Allowance for uncollectible amounts	**(10.9)**	(12.5)	(16.8)
Carrying value	**995.6**	907.3	825.2

20. Impairment provisions on loans to customers

The following notes set out information on the Group's impairment provisioning under IFRS 9 for the loans to customers balances set out in note 18, including both finance leases, accounted for under IFRS 16, and loans held at amortised cost, accounted for under IFRS 9, as both groups of assets are subject to the IFRS 9 impairment requirements.

The disclosures are set out within the following notes:

- 21 Loan impairments – Basis of provision
- 22 Loan impairments by stage and division
- 23 Loan impairments – Provision movements in the year
- 24 Loan impairments – Economic inputs to calculations
- 25 Loan impairments – Sensitivity analysis

The impact on the Group's profit and loss account for the year is set out in note 11.

21. Loan impairment – basis of provisions

IFRS 9 requires that impairment is evaluated on an expected credit loss ('ECL') basis. ECLs are based on an assessment of the probability of default ('PD') and loss given default ('LGD'), discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted, considering all reasonable and supportable information, including forward-looking economic assumptions and a range of possible outcomes. The provision may be based on either twelve month or lifetime ECL, dependent on whether an account has experienced a significant increase in credit risk ('SICR').

The Group's process for determining its provisions for impairments is summarised below. This includes:

i. The methods used for the calculation of ECL

ii. How it defines SICR

iii. How it defines default

iv. How it identifies which loans are credit impaired, as defined by IFRS 9

v. How the ECL estimation process is monitored and controlled

vi. How the Group develops and enhances the models it uses in the ECL estimation process

vii. How the Group uses judgemental adjustments to ensure all elements of credit risk are fully addressed

i) Calculation of expected credit loss ('ECL')

For the majority of the Group's loan assets, the ECL is generated using statistical models applied to account data to generate PD and LGD components. In determining for which portfolios a statistically modelled approach is appropriate, the Group considers the volume of available data and the level of similarity of the credit characteristics of the underlying accounts.

PD on both a twelve month and lifetime basis is estimated based on statistical models for the Group's most significant asset classes. The PD calculation is a function of current asset performance, customer information and future economic assumptions. The models were developed through the analysis of correlation in historic data, which identified which current and historical customer attributes and external economic variables were predictive of future loss. PD measures are calculated for the full contractual lives of loans with the models deriving probabilities that, at a given future date, a loan will be in default, performing or closed. The Group utilised all reasonably available information in its possession for this exercise.

LGD for each account is derived by calculating a value for exposure at the point of default (which will include consideration of future interest, account charges and receipts) and reducing this for security values, net of likely costs of recovery. These calculations allow for the Group's potential case management activities, including the use of receivers of rent in buy-to-let cases. This evaluation includes the potential impact of economic conditions at the time of any future default or enforcement. The derivation of the significant assumptions used in these calculations is discussed below.

In certain asset classes a fully modelled approach is not possible. This is generally where there are few assets in the class, where there is insufficient historical data on which to base an analysis or where certain measures, such as days past due are not useful (including cases where the loan agreement does not require regular payments of pre-determined amounts). In these cases, which represent a small proportion of the total portfolio, alternative approaches are adopted. These rely on internal cost monitoring practices and professional credit judgement. For each of these portfolios, minimum provision levels are set based on overall performance for the asset class and the risk appetites informing underwriting processes.

The largest portfolio where a fully modelled approach is not taken is the Group's development finance book, which has a relatively low number of cases (around 250) and a low incidence of historical losses on which to base a model. For this portfolio the impairment provision is based on the output of internal case-by-case monitoring, performed within the business and subject to a process of challenge by the finance and credit risk functions.

Notwithstanding the mechanical procedures discussed above, the Group will always consider whether the process generates sufficient provision for particular loans, especially large exposures, and will provide additional amounts as appropriate.

In extreme or unprecedented economic conditions, it is likely that mechanical models will be less predictive of outcomes as the historical data used for modelling will be insufficiently representative of conditions at the balance sheet date. This may be the case where economic indicators at the reporting date and future expectations for those indicators lie outside the range of the observations used to construct the models. In such circumstances, management carefully review all outputs to ensure provision is adequate.

During the current financial year interest rates have maintained the highest levels seen in some time, having reached this point with unusual speed, putting financial pressure on businesses and households. Rates of inflation began the year at what were historically relatively high levels and declined only slowly. This type of economic environment is not significantly represented in the historic data sets used by the Group to construct its IFRS 9 impairment models. It was also noted that a rapidly developing economic situation is likely to lead to a lagging impact on the credit bureau data which forms an input to models of customer behaviour, which may delay the recognition of an account potentially at risk.

These factors led management to conclude that current and forecast economic conditions were not ones under which the Group's models would necessarily perform well, and that judgemental adjustments might be required to compensate for these weaknesses.

The methodologies used to derive the Group's ECL provisions at 30 September 2024 are analysed below.

	Gross	Impairment	Net
	£m	£m	£m
30 September 2024			
Modelled portfolios	**14,418.7**	**(41.2)**	**14,377.5**
Judgemental adjustments thereon	**-**	**(5.0)**	**(5.0)**
	14,418.7	**(46.2)**	**14,372.5**
Non-modelled portfolios	**1,363.3**	**(30.3)**	**1,333.0**
Total	**15,782.0**	**(76.5)**	**15,705.5**

	Gross	Impairment	Net
	£m	£m	£m
30 September 2023			
Modelled portfolios	13,825.4	(48.3)	13,777.1
Judgemental adjustments thereon	-	(6.5)	(6.5)
	13,825.4	(54.8)	13,770.6
Non-modelled	1,122.5	(18.8)	1,103.7
Total	14,947.9	(73.6)	14,874.3

In addition to the judgemental adjustments to model outputs shown above, management have applied a £1.5m uplift to provision floors in the development finance operation, reflecting specific economic risks to that business, meaning that total uplifts were £6.5m (2023: £6.5m). The derivation of these adjustments is discussed further below.

ii) Significant Increase in Credit Risk ('SICR')

Under IFRS 9, SICR is not defined solely by account performance, but on the basis of the customer's overall credit position, and this evaluation should include consideration of external data. The Group's aim is to define SICR to correspond, as closely as possible, to that population of accounts which are subject to enhanced administrative and monitoring procedures operationally. The Group assesses SICR in its modelled portfolios primarily on the basis of the relative difference in an account's lifetime PD between origination and the reporting date. The levels of difference required to qualify as an SICR may differ between portfolios and will depend, to some extent, on the level of risk originally perceived and are monitored on an ongoing basis to ensure that this calibrates with actual experience.

It should be noted that the use of the current PD, which includes external factors such as credit bureau data, means that all relevant information in the Group's hands concerning the customers' present credit position is included in the evaluation, as well as the impact of future economic expectations.

For non-modelled portfolios, the SICR assessment is based on the credit monitoring position of the account in question and for all portfolios a number of qualitative indicators which provide evidence of SICR have been considered.

Loans will generally be considered to retain significantly increased credit risk for a period after the SICR trigger no longer remains.

As part of its determination of whether model outputs form a reliable basis for impairment provisioning, the Group considered whether it had any evidence of groups of accounts demonstrating factors indicating a higher level of credit risk than other accounts in the same portfolios, either from operational experience or its regular credit risk monitoring activities. No such evidence was noted at 30 September 2024 or 30 September 2023, and hence no additional accounts were identified as having an SICR.

iii) Definitions of default

As the IFRS 9 definition of ECL is based on PD, default must be defined for this purpose. The analysis of these default cases provides the foundation for the Group's PD modelling. IFRS 9 provides a rebuttable presumption that an account is in default when it is 90 days overdue and this was used as the basis of the Group's definition, combined with qualitative and quantitative factors specific to each portfolio.

The most influential quantitative factor in the majority of portfolios is the arrears level, while the principal qualitative factors relate to internal account management statuses. In particular the decision to commence a process of enforcement will be considered as a default in all portfolios. In the Group's buy-to-let mortgage portfolio the appointment of a receiver of rent to manage the property on the customer's behalf is considered a default, while for portfolios assessed on a case-by-case basis, such as the Group's development finance loans, the movement of an account to the highest risk category used for internal monitoring is considered as a default.

This ensures that the Group's definitions of default for its various portfolios are materially aligned to the regulatory definitions of default used internally, and are broadly aligned to its internal operational procedures, allowing for the arbitrary nature of the 90-day cut-off, which is a regulatory rather than an operational requirement. In particular the Group's receiver of rent cases are defined as defaulted for modelling purposes as the behaviour of the case after that point is significantly influenced by internal management decisions.

iv) Credit Impaired loans

IFRS 9 defines a credit impaired account as one where an account has suffered one or more events which have had a detrimental effect on future cash flows. It is thus a backward-looking definition, rather than one based on future expectations.

Credit impaired assets are identified either through quantitative measures or by operational status. Designations of accounts for regulatory capital purposes are also taken into account. Assets may also be assigned to Stage 3 if they are identified as credit impaired as a result of management review processes.

All loans which are in the process of enforcement, from the point where this becomes the administration strategy, are classified as credit impaired.

Loans are retained in Stage 3 for three months after the point where they cease to exhibit the characteristics of default. After this point, they may move to Stage 2 or Stage 1 depending on whether an SICR trigger remains.

All default cases are considered to be credit impaired, including all receiver of rent cases and all cases with at least one payment more than 90 days overdue, even where such cases are being managed in the expectation of realising all of the carrying balance.

In order to provide better information for users, additional analysis of credit impaired accounts has been presented in note 22, distinguishing between probationary accounts, receiver of rent accounts, accounts subject to realisation / enforcement procedures and long-term managed accounts, all of which are treated as credit impaired. While other indicators of default are in use, the categories shown account for the overwhelming majority of Stage 3 cases.

v) Monitoring of ECL estimation processes

The Group's ECL models are compiled on the basis of the analysis of relevant historical data. Before a model is adopted for use its operations and outputs are examined to ensure that it is expected to be appropriately predictive and, if it is an updated model, expected to be more predictive than any existing model. Before a new model is adopted the changes and impacts will be considered by the CFO, alongside any advice from the Group's independent model review functions. The performance of all models is reviewed on an ongoing basis, by senior finance and risk management, including the CFO. Monitoring packs comparing actual and predicted loss levels are produced at regular intervals, set on the basis of the materiality of each model. The continuing appropriateness of model assumptions is also reviewed as part of this process.

Models are revisited on a regular basis to ensure that they continue to reflect the most recent data as the available information increases over time.

On a monthly basis all model outputs, model overlays and provisions calculated for non-modelled books are reviewed by senior finance management including the CFO in conjunction with the latest credit risk operational and economic metrics to ensure that the impairment provision by asset type remains appropriate. This exercise will be the subject of particular focus at the year end and the half year.

This information is summarised for the Audit Committee on a biannual basis, and they have regard to this data in forming their conclusions on the appropriateness of provisioning levels.

vi) Model development

The models used by the Group are updated from time-to-time to allow for changes in the business, developments in best practice and the availability of additional data with the passing of time. During the year ended 30 September 2024 a major update to the Motor Finance PD model took place, meaning that three of the Group's four principal PD models, covering over 99% of modelled balances, have been updated since IFRS 9 was implemented.

The adoption of the new Motor Finance model has enabled the reporting process in the year to be more streamlined, supported increased use of scenario analysis, and increased the ability of the model to respond to economic inputs and wider customer credit data. It is also based on a greater volume of current data, as the Group only re-entered this market in 2014, four years before the implementation date of the first generation PD model.

The impacts of the adoption of the new Motor Finance PD model in the year ended 30 September 2024 on a like-for-like basis were to increase provision by £0.8m and transfer £6.5m of gross balances from Stage 1 to Stage 2.

The Group's programme of model development continued during the year with a particular focus on analysing how default and loss data recorded over the period of the Covid pandemic should be reflected in the next generation of forward-looking models, given the unprecedented nature of the pandemic and the national and international response to it.

All revised models and model enhancements are carefully reviewed and tested before adoption, and are subject to a governance process for their approval.

vii) Judgemental adjustments

To ensure that the Group's loan portfolios are properly provisioned, the Group considers factors that might impact on customers, but which may either not be reflected by its provision processes, be only partially reflected or not be reflected sufficiently quickly. These may include consideration of the likely impact of the broad economic environment, customer and market sentiment and expert knowledge within the Group's businesses.

In the year ended 30 September 2024 the most significant factors in these considerations were the extent to which uncertainties in the UK economy arising from the rapidly rising interest rates, and increases in the cost of living and doing business in the UK seen in recent periods, and the impacts of continuing world conflicts were reflected in current customer performance at the period end and were being fully addressed by the Group's provision modelling, particularly in view of the lack of recent observations relating to similar conditions. These impacts were felt particularly in the Group's development finance business where some projects priced before recent rises in costs and interest rates came under stress in the period.

The divergence of the current economic environment from those experienced over much of recent history inevitably weakens the ability of any experience-based model to predict credit performance accurately, and means that management have to consider carefully the requirement for the mechanically generated provision to be adjusted.

Where management has identified a requirement to amend the calculated provision as a result of either model deficiencies or idiosyncratic behaviour in part of the portfolio, judgemental adjustments are applied to the modelled outputs so that the ECL recognised corresponds to expert judgement, taking into account the widest possible range of current information, which might not be factored into the modelling process. Similarly where non-modelled books come under stress, methodologies may be adjusted to ensure coverage is sufficient.

The Group's approach to impairment modelling is based on the analysis of historical credit data. In normal circumstances the Group's objective is to develop its modelling to the point where the level of judgemental adjustments required is minimal, but in economic conditions where previous relevant experience is limited or non-existent, some form of judgemental adjustment is always likely to be necessary. While high interest rates and sharp price rises have occurred in the UK in the past, market conditions, products and regulatory expectations have moved on considerably in the meantime, and most such observations would pre-date the existence of buy-to-let mortgages as a distinct asset class. This means that the value of past history as a guide to future credit performance is reduced.

Current model behaviours and the potential for unobserved credit issues have meant that the requirement for such adjustments over recent periods has been significant, even given the work done to replace and enhance the Group's first generation of IFRS 9 impairment models. Evidence considered by management in order to assess the size of the adjustments required included internal performance data, customer and broker feedback, insight surveys, industry intelligence, evidence on the wider economy and quantitative and qualitative data and statements from industry, government and regulatory bodies. These were combined with the expert knowledge within the business to form a broad estimate of the level of provision required across the Group.

A similar process was undertaken in respect of non-modelled books to ensure that specific issues and impacts were being identified, and the minimum provisions set for each portfolio remained sufficient.

As part of these exercises, the potential for climate-related issues to impact on customer business models or security values over the timescales for ECL calculation required by IFRS 9 was considered. No specific requirement for additional impairment provisions over the amounts already determined was identified.

The requirement for judgemental adjustments is considered on a portfolio-by-portfolio basis, and the potential for the existence of significant groups of assets being particularly exposed to credit risk in the expected economic scenarios is also considered.

The total amounts of judgemental adjustments provided across the Group are set out below by segment.

	2024	2024	2023	2023
	£m	£m	£m	£m
Mortgage Lending – modelled		3.0		3.0
Commercial Lending – modelled	2.0		3.5	
Commercial Lending – non-modelled	1.5		-	
		3.5		3.5
		6.5		6.5

The position at 30 September 2024 is broadly similar to that at 30 September 2023, representing the extent to which the concerns over future customer performance and the potential for future economic headwinds which gave rise to the original adjustments remain in place. While some adverse trends in performance have been noted in the portfolios, these have been offset, to some extent, by the impact of forecast downward trends in future inflation and interest rates in the scenarios underlying the impairment models. Within the overall position, there has been some movement on individual books, with the solid performance of the SME asset finance book reducing the need for overlay, while the conditions faced by developers in the current economic situation generated a need for additional overlay.

The adjustment in the Mortgage Lending book at the previous year end had represented the level to which the credit metrics and other model inputs did not produce a result for the buy-to-let portfolio which accorded with the credit expectations of management, brokers and customers, particularly in respect of legacy assets. While there has been some upward movement in arrears metrics, both for the Group and the buy-to-let market more generally, and some long standing cases have been resolved, future expectations remain broadly in line with those twelve months earlier. In response to these factors, management decided that it was appropriate to maintain the level of overlay at 30 September 2024.

The Group's SME lending portfolio performed generally strongly in the period, with a consequent impact on the calculated provision. However, a level of caution remains as to the broader outlook for UK SMEs in the current economic climate, and there remain concerns as to the effectiveness of the Group's provisioning model in a high interest rate environment. On this basis the judgemental adjustment has been reduced to £1.0m for the current year (2023: £2.5m).

For the motor finance portfolio, the £1.0m overlay to the modelled provision, first included at 30 September 2023, has been maintained (2023: £1.0m). While early indications show the second generation model to be more effective at identifying credit risk cases, the data it is built on still includes little information corresponding to a period of falling inflation rapidly following a period of sharp price rises. Therefore the overlay has been retained to ensure provision in that book remains reasonable overall, considering other portfolio data.

The Group's analysis found no evidence of particular concentrations of credit risk below portfolio level. Given this, and the high level nature of the exercise undertaken, the judgemental adjustments on modelled balances have been apportioned across the Group's buy-to-let mortgage, SME lending and motor finance portfolios, as appropriate, to individual Stage 1 cases. As such they are included in the credit risk disclosures required by IFRS 7.

Within the development finance book, performance deteriorated in the year, impacted by increased materials and labour costs and higher interest rates, particularly on projects approved and costed before these became likely. In response, as well as focussed reviews on individual cases, the Group determined that the minimum provision for all cases should be uplifted from normal levels, generating an additional provision of £1.5m, focussed on older cases (2023: £nil).

The Group will continue to monitor the requirement for all these adjustments as the economic situation develops and its impacts are more fully reflected in model outputs. It is anticipated that a more normal economic situation would require a lower value of adjustments, but the timescale in which such a scenario might be reached appears uncertain.

The Group has adopted the terminology for impairment adjustments proposed by the Taskforce on Disclosures about Expected Credit Loss ('DECL') which restricts the use of the term 'Post Model Adjustment' ('PMA') to those adjustments calculated on an account-by-account basis and therefore no longer uses that term for other judgemental adjustments.

22. Loan impairments by stage and division

IFRS 9 calculations and related disclosures require loan assets to be divided into three stages, with accounts which were credit impaired on initial recognition representing a fourth class.

The three classes comprise: those where there has been no SICR since advance or acquisition (Stage 1); those where there has been an SICR (Stage 2); and loans which are impaired (Stage 3).

- On initial recognition, and for assets where there has not been an SICR, provisions will be made in respect of losses resulting from the level of credit default events expected in the twelve months following the balance sheet date
- Where a loan has experienced an SICR, whether or not the loan is considered to be credit impaired, provisions will be made based on the ECLs over the full life of the loan
- For credit impaired assets, provisions will also be made on the basis of lifetime ECLs

For assets which were 'Purchased or Originated as Credit Impaired' ('POCI') accounts (those considered as credit impaired at the point of first recognition), such as certain of the Group's acquired assets in Mortgage Lending, the carrying valuation is based on expected cash flows discounted by the EIR determined at the point of acquisition.

The recommendations of the taskforce on Disclosures about Expected Credit Loss ('DECL') suggest standard categories for analysis of firm's loan books. In the context of the DECL categorisation the Group's Mortgage Lending balances are classified as 'UK retail mortgage' business while its Commercial Lending balances, being advanced primarily to SME entities correspond with the 'UK other retail' business classification.

The Group defines coverage as the value of the ECL provision divided by the gross carrying value of the related loans.

An analysis of the Group's loan portfolios between the stages defined above is set out below.

	Stage 1	Stage 2*	Stage 3*	POCI	Total
	£m	£m	£m	£m	£m
30 September 2024					
Gross loan book					
Mortgage Lending	**12,670.3**	**598.9**	**171.1**	**10.7**	**13,451.0**
Commercial Lending	**2,034.9**	**177.2**	**112.5**	**6.4**	**2,331.0**
Total	**14,705.2**	**776.1**	**283.6**	**17.1**	**15,782.0**
Impairment provision					
Mortgage Lending	**(3.4)**	**(2.2)**	**(29.7)**	**-**	**(35.3)**
Commercial Lending	**(12.6)**	**(5.0)**	**(21.1)**	**(2.5)**	**(41.2)**
Total	**(16.0)**	**(7.2)**	**(50.8)**	**(2.5)**	**(76.5)**
Net loan book					
Mortgage Lending	**12,666.9**	**596.7**	**141.4**	**10.7**	**13,415.7**
Commercial Lending	**2,022.3**	**172.2**	**91.4**	**3.9**	**2,289.8**
Total	**14,689.2**	**768.9**	**232.8**	**14.6**	**15,705.5**
Coverage ratio					
Mortgage Lending	**0.03%**	**0.37%**	**17.36%**	**-**	**0.26%**
Commercial Lending	**0.62%**	**2.82%**	**18.76%**	**39.06%**	**1.77%**
Total	**0.11%**	**0.93%**	**17.91%**	**14.62%**	**0.48%**

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

	Stage 1	Stage 2*	Stage 3*	POCI	Total
	£m	£m	£m	£m	£m
30 September 2023					
Gross loan book					
Mortgage Lending	12,159.7	625.0	142.2	17.7	12,944.6
Commercial Lending	1,812.6	119.8	63.8	7.1	2,003.3
Total	13,972.3	744.8	206.0	24.8	14,947.9
Impairment provision					
Mortgage Lending	(4.8)	(6.1)	(31.4)	-	(42.3)
Commercial Lending	(14.8)	(3.3)	(8.4)	(4.8)	(31.3)
Total	(19.6)	(9.4)	(39.8)	(4.8)	(73.6)
Net loan book					
Mortgage Lending	12,154.9	618.9	110.8	17.7	12,902.3
Commercial Lending	1,797.8	116.5	55.4	2.3	1,972.0
Total	13,952.7	735.4	166.2	20.0	14,874.3
Coverage ratio					
Mortgage Lending	0.04%	0.98%	22.08%	-	0.33%
Commercial Lending	0.82%	2.75%	13.17%	67.61%	1.56%
Total	0.14%	1.26%	19.32%	19.35%	0.49%

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

Finance leases included above, analysed by staging, were:

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
30 September 2024					
Gross loan book	**958.1**	**40.7**	**7.7**	**-**	**1,006.5**
Impairment provision	**(4.9)**	**(2.8)**	**(3.2)**	**-**	**(10.9)**
Net loan book	**953.2**	**37.9**	**4.5**	**-**	**995.6**
Coverage Ratio	**0.51%**	**6.88%**	**41.56%**	**-**	**1.08%**
30 September 2023					
Gross loan book	873.0	40.6	6.0	0.2	919.8
Impairment provision	(8.0)	(1.9)	(2.6)	-	(12.5)
Net loan book	865.0	38.7	3.4	0.2	907.3
Coverage Ratio	0.92%	4.68%	43.33%	-	1.36%

In terms of the Group's credit management processes, Stage 1 cases will fall within the appropriate customer servicing functions and Stage 2 cases will be subject to account management arrangements. Stage 3 cases will include both those subject to recovery or similar processes and those which, though being managed on a long-term basis, are included with defaulted accounts for regulatory purposes. However, these broad categorisations may vary between different product types.

POCI balances included in the Commercial Lending segment arise principally from acquired businesses, where those assets were identified as credit impaired at the point of acquisition when the acquired portfolios as a whole were evaluated. Additional provision arising on these assets post-acquisition is shown as 'Impairment Provision' above.

The Group's acquired secured consumer loans are included in the Mortgage Lending segment, together with its closed second charge mortgage portfolios. Acquired loans which were performing on acquisition are included in the staging analysis above.

Acquired portfolios of second charge mortgage assets which were largely non-performing at acquisition, and which were purchased at a deep discount to face value, are shown as POCI assets above. Although no provision is shown above for such assets, the effect of the discount on purchase is included in the gross value ensuring that the carrying value is substantially less than the current balances due from customers and the level of cover is considerable. These balances continue to reduce as customers make payments.

Analysis of Stage 2 loans

The table below analyses the accounts in Stage 2 between those not more than one month in arrears where an SICR has nonetheless been identified from other information and accounts more than one month in arrears.

Cases which have been greater than one month in arrears in the last three months, but which are not at the balance sheet date are shown as 'recent arrears' in the tables below.

In all cases accounts which are more than one month in arrears, where this is a meaningful measure, are considered to have an SICR. However, in certain loan portfolios, regular monthly payments of pre-set amounts are not required and hence this criterion cannot be used.

The Group uses arrears multiples as a proxy for days past due, as this measure is commonly used in its arrears reporting. A loan will generally be one month in arrears from the point at which a payment is one day past due until it is thirty days past due.

The value of Stage 2 loans in the mortgage segment has declined somewhat in the year as a result of more benign economic conditions. This has resulted in fewer cases of accounts between one and three months in arrears, with older Stage 2 cases either curing or passing to Stage 3 and a lower incidence of new arrears in the year. The most significant part of the Stage 2 balance remains cases identified through their PD scores, although the size of this balance remained stable in the period.

Both provision coverage levels for Stage 2 Mortgage Lending cases, and the absolute level of provision have reduced in the period. This is partly a result of the reduction in current arrears cases, which tend to attract the highest provision relatively, but is also an effect of the slow, but continuing growth in house prices, and therefore security values, in the period. The coverage levels have also been reduced as a result of some long standing, high provision cases having moved though to Stage 3, and in some cases realisation, in the year.

For Commercial Lending cases values of Stage 2 accounts have increased significantly, with the most marked growth in the non-arrears cases. This includes the Stage 2 element of the development finance book, which accounted for almost all of the growth, reflecting the additional scrutiny applied in what has been a difficult period for the construction industry. The trend for Stage 2 arrears cases in the period was largely positive, reflecting the more stable economic environment.

Stage 2 coverage has increased slightly in the Commercial Lending segment. While the high theoretical levels of real estate security available in the development finance business tend to reduce potential impairment calculated, the uplift in minimum provision applied in response to the issues seen in the business in the year, described above, has enhanced coverage levels. This has caused an increased coverage on non-arrears accounts. Coverage on the relatively low number of Stage 2 arrears cases in the segment tends to be idiosyncratic, based on the nature of security available on each of the cases included.

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£m	**£m**	**£m**	**£m**
30 September 2024				
Gross loan book				
Mortgage Lending	**521.8**	**13.5**	**63.6**	**598.9**
Commercial Lending	**171.9**	**2.7**	**2.6**	**177.2**
Total	**693.7**	**16.2**	**66.2**	**776.1**
Impairment provision				
Mortgage Lending	**(1.7)**	**-**	**(0.5)**	**(2.2)**
Commercial Lending	**(4.5)**	**(0.1)**	**(0.4)**	**(5.0)**
Total	**(6.2)**	**(0.1)**	**(0.9)**	**(7.2)**
Net loan book				
Mortgage Lending	**520.1**	**13.5**	**63.1**	**596.7**
Commercial Lending	**167.4**	**2.6**	**2.2**	**172.2**
Total	**687.5**	**16.1**	**65.3**	**768.9**
Coverage ratio				
Mortgage Lending	**0.33%**	**-**	**0.79%**	**0.37%**
Commercial Lending	**2.62%**	**3.70%**	**15.38%**	**2.82%**
Total	**0.89%**	**0.62%**	**1.36%**	**0.93%**

	< 1 month arrears	Recent arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m	£m
30 September 2023				
Gross loan book				
Mortgage Lending	518.1	15.8	91.1	625.0
Commercial Lending	116.3	0.4	3.1	119.8
Total	634.4	16.2	94.2	744.8
Impairment provision				
Mortgage Lending	(2.3)	(0.1)	(3.7)	(6.1)
Commercial Lending	(2.9)	-	(0.4)	(3.3)
Total	(5.2)	(0.1)	(4.1)	(9.4)
Net loan book				
Mortgage Lending	515.8	15.7	87.4	618.9
Commercial Lending	113.4	0.4	2.7	116.5
Total	629.2	16.1	90.1	735.4
Coverage ratio				
Mortgage Lending	0.44%	0.63%	4.06%	0.98%
Commercial Lending	2.49%	-	12.90%	2.75%
Total	0.82%	0.62%	4.35%	1.26%

Analysis of Stage 3 loans

The table below analyses the accounts in Stage 3 between those:

- In the process of sale or other enforcement procedures ('Realisations')
- Where a receiver of rent ('RoR') has been appointed by the Group to manage the property on the customers' behalf
- Which are being managed on a long-term basis and where full recovery is possible, but which are considered to meet regulatory default criteria at the balance sheet date ('>3 month arrears'). This category includes accounts identified as defaults using non-arrears based unlikeliness to pay ('UTP') indicators
- Which no longer meet regulatory default criteria, but which are being retained in Stage 3 for a probationary period ('Probation')

Where an account meets two of the criteria, it will be assigned to the category shown first in the list above.

RoR accounts in Stage 3 may be fully up-to-date with full recovery possible. These accounts are included in Stage 3 as they are classified as defaulted for regulatory purposes.

The value of Stage 3 cases has increased in the period, as cases impacted by the economic issues of recent years continue to make their way through the system. Increases have been registered across almost all categories, although the receiver of rent book in the Mortgage Lending segment continues to reduce as older cases are worked out.

While the incidence of new receivership arrangements in the year has increased, these have generally moved to sale more quickly, based on the positive property market in the year, accounting for the increased number shown in the realisations column. However, the Group continues to use the receivership process to ensure good outcomes for its landlord customers, their tenants and itself and, where appropriate, will manage these accounts on a longer-term basis.

Stage 3 coverage levels in the Mortgage Lending segment are a little reduced, a result of increasing property values in the period providing enhanced security and also of the crystallisation of losses on some older, heavily provided, receivership cases.

The growth in Stage 3 cases in the Commercial Lending division is attributable largely to a number of cases in the development finance business impacted by issues in the UK building sector over recent periods. These appear in the '>3 month arrears' column. While such cases enjoy security over the development funded, the Group has taken a careful approach to estimating recoverable values, especially where the security may comprise an unfinished structure. This has also driven a growth in provision coverage in the period for the segment.

	Probation	> 3 month arrears	RoR managed	Realisations	Total
	£m	£m	£m	£m	£m
30 September 2024					
Gross loan book					
Mortgage Lending	**10.3**	**44.6**	**45.2**	**71.0**	**171.1**
Commercial Lending	**0.4**	**105.0**	**-**	**7.1**	**112.5**
Total	**10.7**	**149.6**	**45.2**	**78.1**	**283.6**
Impairment provision					
Mortgage Lending	**-**	**(0.7)**	**(11.2)**	**(17.8)**	**(29.7)**
Commercial Lending	**(0.1)**	**(17.7)**	**-**	**(3.3)**	**(21.1)**
Total	**(0.1)**	**(18.4)**	**(11.2)**	**(21.1)**	**(50.8)**
Net loan book					
Mortgage Lending	**10.3**	**43.9**	**34.0**	**53.2**	**141.4**
Commercial Lending	**0.3**	**87.3**	**-**	**3.8**	**91.4**
Total	**10.6**	**131.2**	**34.0**	**57.0**	**232.8**
Coverage ratio					
Mortgage Lending	**-**	**1.57%**	**24.78%**	**25.07%**	**17.36%**
Commercial Lending	**25.00%**	**16.86%**	**-**	**46.48%**	**18.76%**
Total	**0.93%**	**12.30%**	**24.78%**	**27.02%**	**17.91%**

	Probation	> 3 month arrears	RoR managed	Realisations	Total
	£m	£m	£m	£m	£m
30 September 2023					
Gross loan book					
Mortgage Lending	8.8	40.4	50.3	42.7	142.2
Commercial Lending	1.1	57.8	-	4.9	63.8
Total	9.9	98.2	50.3	47.6	206.0
Impairment provision					
Mortgage Lending	-	(1.2)	(16.6)	(13.6)	(31.4)
Commercial Lending	(0.3)	(5.5)	-	(2.6)	(8.4)
Total	(0.3)	(6.7)	(16.6)	(16.2)	(39.8)
Net loan book					
Mortgage Lending	8.8	39.2	33.7	29.1	110.8
Commercial Lending	0.8	52.3	-	2.3	55.4
Total	9.6	91.5	33.7	31.4	166.2
Coverage ratio					
Mortgage Lending	-	2.97%	33.00%	31.85%	22.08%
Commercial Lending	27.27%	9.52%	-	53.06%	13.17%
Total	3.03%	6.82%	33.00%	34.03%	19.32%

The security values available to reduce exposure at default in the calculation shown above for Stage 3 accounts are set out below. The estimated value of the security represents, for each account, the lesser of the valuation estimate and the exposure at default in the central scenario. Security values are based on the most recent valuation of the relevant asset held by the Group, indexed or depreciated as appropriate.

	2024	2023
	£m	£m
First mortgages	**119.1**	89.5
Second mortgages	**8.0**	10.2
Asset finance	**1.9**	1.6
Motor finance	**1.2**	1.2
	130.2	102.5

The RoR managed accounts are being managed to ensure the optimal resolution for landlords, tenants and lenders and have largely reached a long-term, stable position, but the existence of the RoR arrangement causes the accounts to be treated as defaulted for regulatory purposes. The Group's RoR arrangements are described in more detail below.

Mortgage Lending balances with over three months arrears include second charge mortgage accounts originated over ten years ago which have been over three months in arrears for some time. These accounts are generally making regular payments and have significant levels of equity in the underlying property which reduces the required provision to the value shown above. It is expected that a high proportion of these accounts will eventually redeem naturally, either on the sale of the property or by the satisfaction of the amount due through instalment payments.

Buy-to-let receiver of rent cases (Stage 3)

Where a buy-to-let mortgage customer in England or Wales falls into arrears on their account the Group has the power to appoint a receiver of rent under the Law of Property Act. The receiver will then manage the property on behalf of the customer, collecting rents and remitting them to make payments on the account. While the receiver has the power to sell the property, in many cases they will operate it as a buy-to-let on at least a short to medium term basis, potentially longer, depending on the individual circumstances of the case. This causes less disruption to the tenants and may result in the mortgage account returning to performing status and the property being handed back to the customer.

While legacy cases continued to be resolved in the period, economic pressures have led to an increasing number of new receiver of rent appointments in the year, including some larger portfolio cases. These overwhelmingly relate to legacy cases advanced before 2009 and will therefore have a long rental history, with tenants in place in many cases.

The following table analyses the number and gross carrying value of RoR managed accounts shown above by the date of the receivers' appointment, illustrating this position.

	30 September 2024		30 September 2023	
	No.	**£m**	No.	£m
Managed accounts				
Appointment date				
2010 and earlier	**94**	**14.6**	135	20.1
2011 to 2015	**16**	**2.2**	31	4.5
2016 to 2020	**6**	**0.8**	15	2.0
2021 and later	**167**	**27.6**	154	23.7
Total managed accounts	**283**	**45.2**	335	50.3
Accounts in the process of realisation	**356**	**57.6**	225	41.0
	639	**102.8**	560	91.3

Receiver of rent accounts in the process of realisation at the period end are included under that heading in the Stage 3 tables above. In addition to the cases analysed above there were four other receiver of rent cases in acquired mortgage books classified as POCI (2023: four), meaning that the Group's total of receiver of rent cases at 30 September 2024 was 643 (2023: 564).

23. Loan impairments – provision movements in the year

The movements in the impairment provision calculated under IFRS 9, analysed by business segments, are set out below.

	Mortgage Lending	Commercial Lending	Total
	£m	£m	£m
At 30 September 2023	42.3	31.3	73.6
Provided in period (note 11)	6.0	20.4	26.4
Amounts written off	(13.0)	(10.5)	(23.5)
At 30 September 2024 (note 22)	**35.3**	**41.2**	**76.5**
At 30 September 2022	38.0	25.5	63.5
Provided in period (note 11)	10.8	8.3	19.1
Amounts written off	(6.5)	(2.5)	(9.0)
At 30 September 2023 (note 22)	42.3	31.3	73.6

Accounts are considered to be written off for accounting purposes if a balance remains once standard enforcement processes have been completed, subject to any amount retained in respect of expected salvage receipts. This has no effect on the net carrying value, only on the amounts reported as gross loan balances and accumulated impairment provisions.

At 30 September 2024, enforceable contractual balances of £15.3m (2023: £7.6m) were outstanding on non-POCI assets written off in the period. This excludes those accounts where a full and final settlement was agreed and those where the contractual terms do not permit any further action. Enforceable balances are kept under review for operational purposes, but no amounts are recognised in respect of such accounts unless further cash is received or there is a strong expectation that it will be.

A more detailed analysis of these movements by IFRS 9 stage on a consolidated basis for the years ended 30 September 2024 and 30 September 2023 is set out below.

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

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

The changes in models introduced during the year did not create significant movements in balances.

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Loss allowance at 30 September 2023	19.6	9.4	39.8	4.8	73.6
New assets originated	6.5	-	-	-	6.5
Changes in loss allowance					
Transfer to Stage 1	2.0	(1.8)	(0.2)	-	-
Transfer to Stage 2	(2.2)	3.0	(0.8)	-	-
Transfer to Stage 3	(0.2)	(4.5)	4.7	-	-
Changes on stage transfer	(1.6)	2.4	26.4	-	27.2
Changes due to credit risk	(8.1)	(1.3)	4.4	(2.3)	(7.3)
Write offs	-	-	(23.5)	-	(23.5)
Loss allowance at 30 September 2024	**16.0**	**7.2**	**50.8**	**2.5**	**76.5**
Loss allowance at 30 September 2022	25.5	8.0	28.5	1.5	63.5
New assets originated	9.5	-	-	-	9.5
Changes in loss allowance					
Transfer to Stage 1	2.8	(2.7)	(0.1)	-	-
Transfer to Stage 2	(1.7)	2.0	(0.3)	-	-
Transfer to Stage 3	(0.2)	(1.9)	2.1	-	-
Changes on stage transfer	(2.5)	2.3	14.6	-	14.4
Changes due to credit risk	(13.8)	1.7	4.0	3.3	(4.8)
Write offs	-	-	(9.0)	-	(9.0)
Loss allowance at 30 September 2023	19.6	9.4	39.8	4.8	73.6

During the year ended 30 September 2024, provision levels remained broadly stable overall, although the generally more benign economic climate and increased confidence in the UK saw provision in Stages 1 and 2 falling, compensated by an increase in Stage 3 provision as problem cases moved through the credit cycle, but were not generally replaced by new arrears accounts at the same rate.

Provision levels on secured lending tended to decline, especially for loans secured on property, with prices in most areas growing in the year. However, a number of problem cases in development finance saw an increased level of provision being booked, as issues with project progress and financing emerged in the year, with these changes being recognised in the Stage 3 movements.

The level of write-offs in the year was higher than in the previous period as some long-term cases were finally resolved and the related provision applied.

During the year ended 30 September 2023 the impairment allowance increased, driven mostly by the increase in Stage 3 and POCI cases, a result of the level of actual defaults in the period, particularly in the development finance business, and by reduced levels of available security through declining house prices in the mortgage segment.

The net reduction in Stage 1 provisions in that year included the effect of changes in judgemental adjustments in the period, with items formerly addressed by these provisions beginning to move through Stage 2 and Stage 3. These movements were driven by both account performance, and by the impact of more severe actual and forecast economic conditions.

The movements in the Loans to Customers balances in respect of which these loss allowances have been made are set out below.

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Balance at 30 September 2023	13,972.3	744.8	206.0	24.8	14,947.9
New assets originated	2,757.4	-	-	-	2,757.4
Changes in staging					
Transfer to Stage 1	329.3	(325.9)	(3.4)	-	-
Transfer to Stage 2	(566.5)	585.2	(18.7)	-	-
Transfer to Stage 3	(38.1)	(137.6)	175.7	-	-
Redemptions and repayments	(2,558.0)	(137.2)	(76.0)	(11.0)	(2,782.2)
Write offs	-	-	(23.5)	-	(23.5)
Other changes	808.8	46.8	23.5	3.3	882.4
Balance at 30 September 2024	**14,705.2**	**776.1**	**283.6**	**17.1**	**15,782.0**
Loss allowance	(16.0)	(7.2)	(50.8)	(2.5)	(76.5)
Carrying value	14,689.2	768.9	232.8	14.6	15,705.5
Balance at 30 September 2022	12,157.0	1,963.6	124.4	28.8	14,273.8
New assets originated or purchased	3,128.4	-	-	-	3,128.4
Changes in staging					
Transfer to Stage 1	1,258.9	(1,255.7)	(3.2)	-	-
Transfer to Stage 2	(365.6)	372.9	(7.3)	-	-
Transfer to Stage 3	(28.9)	(104.7)	133.6	-	-
Redemptions and repayments	(2,773.3)	(250.6)	(44.8)	(10.5)	(3,079.2)
Write offs	-	-	(9.0)	-	(9.0)
Other changes	595.8	19.3	12.3	6.5	633.9
Balance at 30 September 2023	13,972.3	744.8	206.0	24.8	14,947.9
Loss allowance	(19.6)	(9.4)	(39.8)	(4.8)	(73.6)
Carrying value	13,952.7	735.4	166.2	20.0	14,874.3

Other changes includes interest and similar charges.

24. Loan impairments – economic inputs to calculations

Impairment provision under IFRS 9 is calculated on a forward-looking ECL basis, based on expected economic conditions in multiple internally coherent scenarios. While the provision calculation is intended to address all possible future economic outcomes, the Group, in common with most other lenders, uses a small number of differing scenarios as representatives of this universe of potential outturns.

The Group uses four distinct economic scenarios chosen to represent the range of possible outcomes and allow for the impact of economic asymmetry in the calculations. Each scenario comprises a number of economic parameters and while models for different portfolios may not use all of the variables, the set, as a whole, is defined for the Group and must be internally consistent.

As the Group does not have an internal economics function, in developing its economic scenarios it considers analysis from reputable external sources to form a general market consensus which informs its central scenario. These sources include data and forecasts produced by the Office of Budget Responsibility ('OBR') and the PRA as well as private sector economic research bodies and industry sources. The Group also takes account of public statements from bodies such as the Bank of England and the UK Government to inform its final position.

The central scenario used for IFRS 9 impairment purposes is consistent with the scenario which forms the basis of the Group's business planning and forecasting and will therefore generally carry the highest probability weighting. In its September 2024 forecasting cycle (the 'October forecast'), the Group has adopted a central economic scenario derived using a broadly equivalent approach to that used in September 2023, with the starting point of the scenario updated to reflect the actual movements of economic variables in the year.

The general trend of the Group's central forecast follows that published by the Bank of England in August 2024. This reflects the recent easing of monetary policy and recovering growth. Unemployment remains low, but trends upwards through the forecast period, inflation is generally stable and bank rates continue to fall. House prices, which have been more resilient than many had forecast, continue to increase modestly.

Compared with the central forecast adopted at 30 September 2023, this is rather more optimistic, with unemployment and interest rates at lower levels and a more positive outlook for house prices in the short term. However, GDP and inflation remain on a similar trajectory. The scenario also begins from the actual September 2024 position, so that variances against the 2023 scenarios in the year are reflected, with house prices at 30 September 2024, especially, starting the forecast period at a higher level than previously modelled.

The upside and downside scenarios are derived from the central forecast, as they have been in previous periods. The shape of the curves representing all three scenarios are similar across the forecast period, but the upside scenario assumes inflation falling more rapidly, driving faster growth and enabling the Bank of England to cut the base rate further and faster than in the base case, while house prices recover more strongly. Conversely, the downside case represents increased pressure on CPI, leading to current levels of base rates persisting for longer, with reduced economic confidence impacting on both house price growth and unemployment levels.

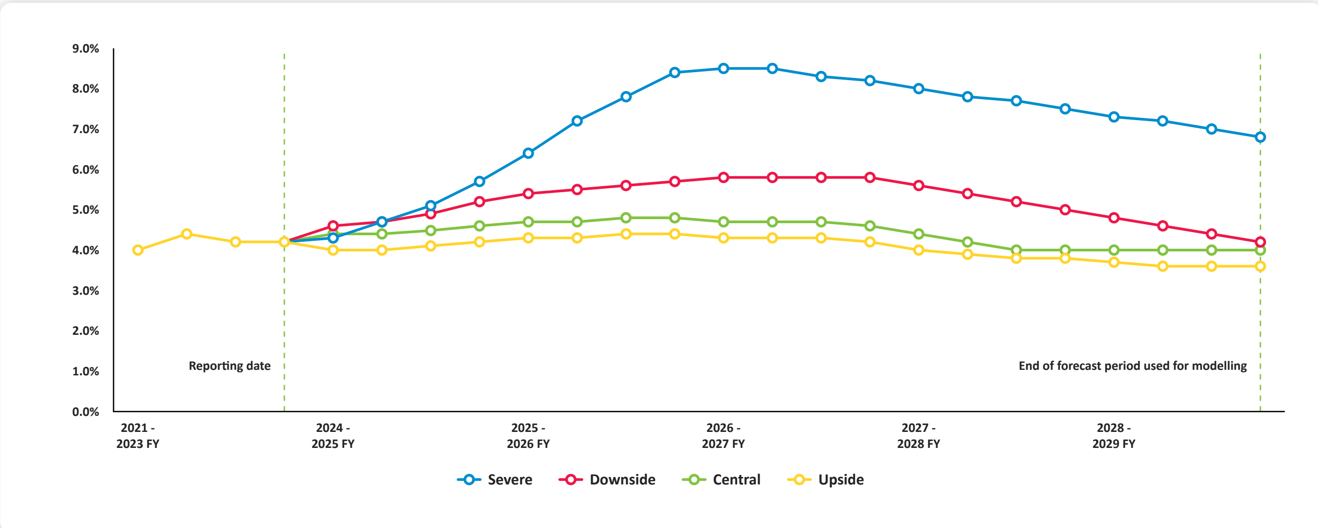
The severe scenario has been derived from the most recent Annual Cyclical Scenario ('ACS') published by the Bank of England, as in recent periods. The supply shock scenario included in the ACS published in July 2024 forms the basis for the Group's scenario and includes persistently high interest rates, causing a pronounced recession impacting on growth and employment levels, with a significant fall in house prices.

The overall shape of the scenarios adopted, and the change in the forecasts year-on-year is illustrated by the forecasts of the UK's unemployment rate set out in the charts below. The unemployment rate has been presented as it is the principal indicator of general economic activity used in modelling losses in the Group's buy-to-let mortgage portfolio.

The forecast levels of house price inflation, the economic variable which has the most significant impact on the size of the Group's impairment provision, are also shown.

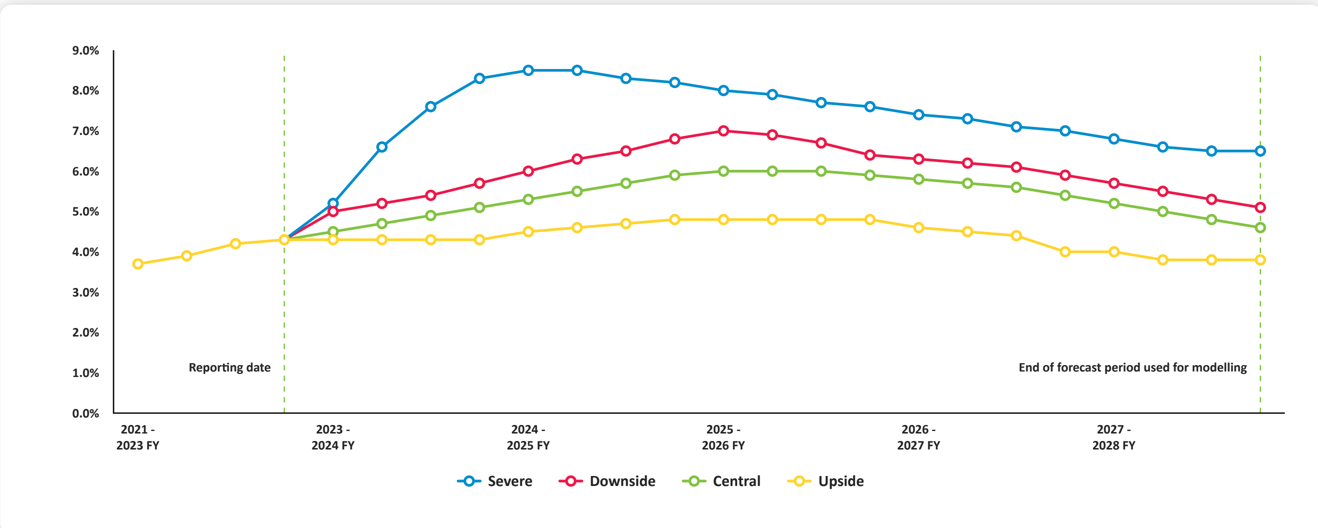
Historical and forecast unemployment rates (End point measure)

As at September 2024



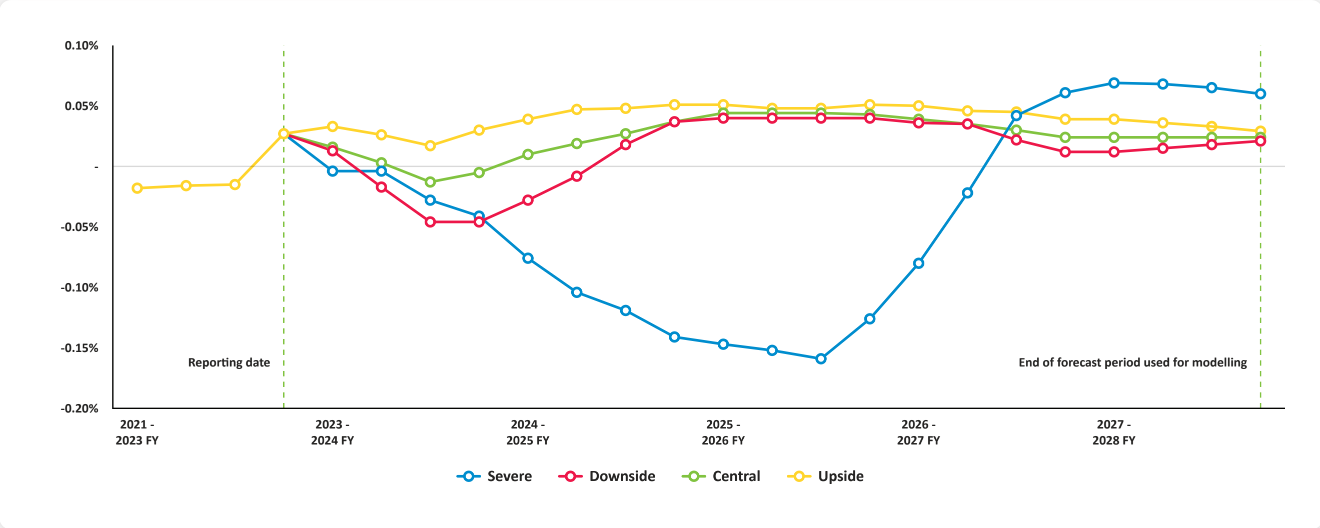
Historical and forecast unemployment rates (End point measure)

As at September 2023



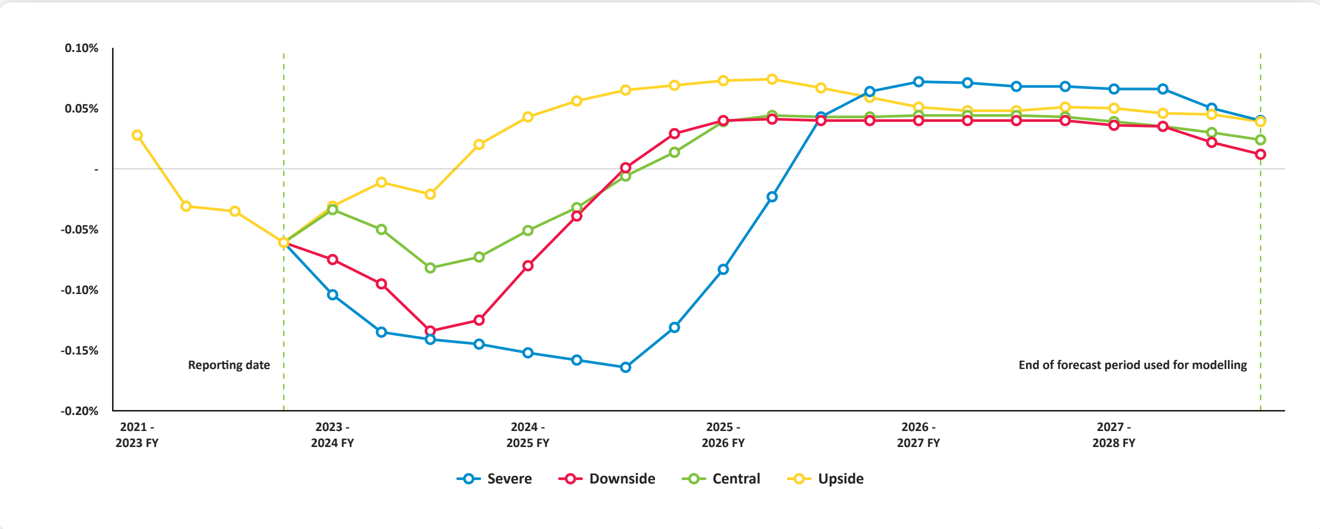
Historical and forecast HPI rates (Annual Change)

As at September 2024



Historical and forecast HPI rates (Annual Change)

As at September 2023



Following a review of the weightings of the different scenarios, set against the overall potential for variability in the future economic outlook, the Group decided to adjust the scenario weightings used at 30 September 2024.

The consensus view for the UK economic outlook is both more settled and more benign than it was at 30 September 2023, however, the potential for significant downside impacts from geopolitical factors, including conflicts in Eastern Europe and the Middle East, remains. The emerging policies of the new UK Government and the outcome of November's US elections are both likely to impact economic sentiment, to the extent of producing substantially different outcomes.

Balancing these factors the Group determined that this was an appropriate point to begin to move back towards a more normal set of economic weightings, closer to those seen in the early years of IFRS 9, before the impacts of Brexit and Covid. As a first step, the impact of the severe scenario has been reduced in the weightings set out below.

Sensitivities comparing the effect of these weightings with those adopted in the previous year and those which might be seen in a more normal economic environment are set out in note 25.

	2024	2023
Central scenario	**45%**	40%
Upside scenario	**10%**	10%
Downside scenario	**30%**	30%
Severe scenario	**15%**	20%
	100%	100%

The Group's economic scenarios comprise seven variables based on standard publicly available metrics for the UK. These variables are:

- Year-on-year change in Gross Domestic Product ('GDP') as measured by the Office of National Statistics ('ONS')
- Year-on-year change in the House Price Index ('HPI') as measured by the Nationwide Building Society
- Bank Base Rate ('BBR'), as set by the Bank of England
- Consumer Price Inflation ('CPI') rate, as measured by the ONS
- Unemployment rate, as measured by the ONS
- Annual change in secured lending, as measured by the Bank of England 'mortgage advances' data series
- Annual change in consumer credit, as measured by the Bank of England 'unsecured advances' data series

The projected average annual values of each of these variables in each of the first five financial years of the forecast period are set out below.

30 September 2024

GDP (year-on-year change)

	2025	2026	2027	2028	2029
Central scenario	**1.4%**	**1.2%**	**1.6%**	**1.6%**	**1.6%**
Upside scenario	**2.9%**	**2.4%**	**2.3%**	**1.7%**	**1.6%**
Downside scenario	**0.5%**	**0.5%**	**1.3%**	**1.6%**	**1.6%**
Severe scenario	**(0.5)%**	**(3.1)%**	**(0.1)%**	**1.9%**	**1.8%**

HPI (year-on-year change)

	2025	2026	2027	2028	2029
Central scenario	**-**	**2.3%**	**4.4%**	**3.2%**	**2.4%**
Upside scenario	**2.7%**	**4.6%**	**5.0%**	**4.5%**	**3.4%**
Downside scenario	**(2.4)%**	**0.5%**	**4.0%**	**2.6%**	**1.7%**
Severe scenario	**(1.9)%**	**(11.0)%**	**(14.6)%**	**-**	**6.5%**

BBR (rate)

	2025	2026	2027	2028	2029
Central scenario	**4.3%**	**3.6%**	**3.4%**	**3.3%**	**3.3%**
Upside scenario	**4.1%**	**3.2%**	**3.0%**	**3.0%**	**3.0%**
Downside scenario	**5.0%**	**5.0%**	**4.6%**	**3.7%**	**3.5%**
Severe scenario	**7.1%**	**8.8%**	**6.3%**	**4.3%**	**3.5%**

CPI (rate)

	2025	2026	2027	2028	2029
Central scenario	**2.6%**	**1.9%**	**1.5%**	**1.7%**	**2.0%**
Upside scenario	**2.1%**	**1.9%**	**2.0%**	**2.0%**	**2.0%**
Downside scenario	**2.5%**	**2.5%**	**2.3%**	**1.9%**	**2.0%**
Severe scenario	**4.7%**	**11.9%**	**4.7%**	**2.1%**	**2.0%**

Unemployment (rate)

	2025	2026	2027	2028	2029
Central scenario	**4.5%**	**4.8%**	**4.7%**	**4.2%**	**4.0%**
Upside scenario	**4.1%**	**4.4%**	**4.3%**	**3.9%**	**3.6%**
Downside scenario	**4.9%**	**5.6%**	**5.8%**	**5.3%**	**4.5%**
Severe scenario	**5.0%**	**7.5%**	**8.4%**	**7.8%**	**7.1%**

Secured lending (annual change)

	2025	2026	2027	2028	2029
Central scenario	**0.3%**	**1.8%**	**3.0%**	**3.0%**	**3.0%**
Upside scenario	**1.3%**	**2.8%**	**3.3%**	**3.0%**	**3.0%**
Downside scenario	**(0.5)%**	**1.0%**	**2.8%**	**3.0%**	**3.0%**
Severe scenario	**(1.8)%**	**(0.3)%**	**2.5%**	**3.0%**	**3.0%**

Consumer credit (annual change)

	2025	2026	2027	2028	2029
Central scenario	**6.8%**	**5.1%**	**4.8%**	**5.0%**	**5.0%**
Upside scenario	**7.5%**	**5.9%**	**5.0%**	**5.0%**	**5.0%**
Downside scenario	**5.8%**	**4.1%**	**4.6%**	**5.0%**	**5.0%**
Severe scenario	**4.3%**	**2.6%**	**4.2%**	**5.0%**	**5.0%**

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GDP (year-on-year change)

	2024	2025	2026	2027	2028
Central scenario	0.4%	0.9%	1.0%	1.2%	1.2%
Upside scenario	1.6%	1.4%	1.0%	1.2%	1.2%
Downside scenario	(0.4)%	0.7%	1.0%	1.2%	1.2%
Severe scenario	(3.6)%	(0.2)%	1.2%	1.2%	1.2%

HPI (year-on-year change)

	2024	2025	2026	2027	2028
Central scenario	(6.4)%	(1.7)%	4.7%	4.4%	3.2%
Upside scenario	(1.1)%	5.8%	6.8%	5.0%	4.5%
Downside scenario	(10.7)%	(2.2)%	4.0%	4.0%	2.6%
Severe scenario	(13.1)%	(15.1)%	-	7.0%	5.6%

BBR (rate)

	2024	2025	2026	2027	2028
Central scenario	5.5%	5.4%	4.8%	4.4%	4.1%
Upside scenario	5.2%	4.4%	3.7%	3.5%	3.5%
Downside scenario	5.6%	3.8%	2.6%	2.0%	2.0%
Severe scenario	6.0%	5.8%	5.1%	4.3%	3.4%

CPI (rate)

	2024	2025	2026	2027	2028
Central scenario	4.4%	2.6%	1.6%	1.8%	2.0%
Upside scenario	3.7%	2.1%	2.1%	2.0%	2.1%
Downside scenario	4.5%	1.0%	0.7%	1.8%	2.0%
Severe scenario	15.7%	12.8%	3.7%	2.4%	2.1%

Unemployment (rate)

	2024	2025	2026	2027	2028
Central scenario	4.8%	5.6%	6.0%	5.6%	4.9%
Upside scenario	4.3%	4.6%	4.8%	4.4%	3.9%
Downside scenario	5.3%	6.4%	6.7%	6.1%	5.4%
Severe scenario	6.9%	8.4%	7.8%	7.2%	6.6%

Secured lending (annual change)

	2024	2025	2026	2027	2028
Central scenario	0.8%	0.3%	1.8%	3.0%	3.0%
Upside scenario	1.5%	1.0%	2.5%	3.2%	3.0%
Downside scenario	-	(0.5)%	1.0%	2.8%	3.0%
Severe scenario	(1.3)%	(1.8)%	(0.3)%	2.5%	3.0%

Consumer credit (annual change)

	2024	2025	2026	2027	2028
Central scenario	3.5%	2.3%	3.9%	4.9%	5.0%
Upside scenario	4.3%	3.0%	4.7%	5.1%	5.0%
Downside scenario	2.8%	1.5%	3.2%	4.8%	5.0%
Severe scenario	1.5%	0.3%	1.9%	4.4%	5.0%

After the end of the initial five year period, the final rate or rate of change (as appropriate) is assumed to continue into the future in each scenario.

To illustrate the levels of non-linearity in the various scenarios, the maximum and minimum quarterly levels for each variable over the five year period commencing on the balance sheet date are set out below.

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	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max	**Min**	**Max**	**Min**	**Max**	**Min**	**Max**	**Min**
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Economic driver								
GDP	**2.0**	**1.0**	**3.0**	**1.6**	**1.6**	**(0.3)**	**1.9**	**(3.7)**
HPI	**4.4**	**(1.3)**	**5.1**	**1.7**	**4.0**	**(4.6)**	**6.9**	**(15.9)**
BBR	**4.5**	**3.3**	**4.5**	**3.0**	**5.0**	**3.5**	**9.0**	**3.5**
CPI	**2.7**	**1.5**	**2.2**	**1.7**	**2.7**	**1.7**	**12.3**	**1.9**
Unemployment	**4.8**	**4.0**	**4.4**	**3.6**	**5.8**	**4.2**	**8.5**	**4.3**
Secured lending	**3.0**	**-**	**4.0**	**1.0**	**3.0**	**(0.8)**	**3.0**	**(2.0)**
Consumer credit	**7.0**	**4.5**	**7.8**	**4.8**	**6.0**	**3.5**	**5.0**	**2.0**

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	Central scenario		Upside scenario		Downside scenario		Severe scenario	
	Max	**Min**	**Max**	**Min**	**Max**	**Min**	**Max**	**Min**
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Economic driver								
GDP	1.2	0.3	2.3	0.9	1.2	(0.8)	1.2	(5.0)
HPI	4.4	(8.2)	7.4	(3.1)	4.1	(13.4)	7.2	(16.4)
BBR	5.5	4.0	5.3	3.5	5.8	2.0	6.0	3.3
CPI	5.0	1.5	4.3	1.8	6.0	0.4	17.0	2.0
Unemployment	6.0	4.5	4.8	3.8	7.0	5.0	8.5	5.2
Secured lending	3.0	-	3.8	0.8	3.0	(0.8)	3.0	(2.0)
Consumer credit	5.0	2.0	5.8	2.8	5.0	1.3	5.0	-

The asymmetry in the models is demonstrated by comparing the calculated impairment provision with that which would have been produced using the central scenario alone, 100% weighted.

	2024	2023
	£m	£m
Provision using central scenario 100% weighted		
Mortgage Lending	**31.6**	38.4
Commercial Lending	**39.7**	29.0
	71.3	67.4
Calculated impairment provision	**76.5**	73.6
Effect of multiple economic scenarios	**5.2**	6.2

25. Loan impairments – sensitivity analysis

The calculation of impairment provisions under IFRS 9 is subject to a variety of uncertainties arising from assumptions, forecasts and expectations about future events and conditions. To illustrate the impact of these uncertainties, sensitivity calculations have been performed for some of the most significant.

These sensitivities are intended as mathematical illustrations of the impacts of the various assumptions on the Group's modelling. They do not necessarily represent alternative potential impairment values as other factors might also need to be considered in arriving at a final provision figure if circumstances differed from those at the balance sheet date.

Economic conditions

To illustrate the potential impact of differing future economic scenarios on the total impairment, the provisions which would be calculated if each of the economic scenarios were 100% weighted are shown below:

Scenario	**2024**		2023	
	Provision	**Difference**	Provision	Difference
	£m	**£m**	£m	£m
Central	**71.3**	**(5.2)**	67.4	(6.2)
Upside	**68.0**	**(8.5)**	59.0	(14.6)
Downside	**76.8**	**0.3**	73.4	(0.2)
Severe	**100.4**	**23.9**	95.7	22.1

The weighted average of these 100% weighted provisions need not equal the weighted average ECL due to the impact of the differing PDs on staging.

Scenario weightings

In order to illustrate the impact of scenario weightings on the outcomes, the impairment provision requirements were sensitised using alternative weightings. Sensitivity A is based on the weightings used at IFRS 9 transition on 1 October 2018. The use of the 2018 weighting is intended to represent a more settled outlook than has been evident at any of the most recent year ends. Sensitivity B is based on the weightings used at the previous year end, to demonstrate the impact of the adoption of the new weightings.

The weightings used, and the results of applying these sensitivities to the 30 September 2024 scenarios are set out below.

		Weighting			**Impairment**	**Difference**
	Central	**Upside**	**Downside**	**Severe**	**£m**	**£m**
As reported	45%	10%	30%	15%	76.5	-
Sensitivity A	40%	30%	25%	5%	72.9	(3.6)
Sensitivity B	40%	10%	30%	20%	77.8	1.3

Significant increase in credit risk

The most important driver of SICR is relative PD. If all PDs across the Group's principal buy-to-let mortgage book were increased by 10%, loans with a gross value of £44.4m would transfer from Stage 1 to Stage 2 (2023: £68.4m), and the total provision would increase by £0.3m from the combined effects of higher PDs on expected losses and the impact of providing for expected lifetime losses, rather than 12-month losses on the additional Stage 2 cases (2023: £0.8m).

Value of security

The principal assumptions impacting on LGD are the estimated security values. If the rate of growth in house prices assumed by the model after the forecast minimum were halved, ignoring any PD effects, then the provision for the Group's first and second mortgage assets under the central scenario would increase by £0.5m (2023: £0.7m).

Receiver of rent

The majority of receiver of rent cases, which are included in Stage 3, are managed long-term and therefore their assumed realisation date has an important impact on the provision calculation. If the assumed rate of realisations was increased by 20%, the impairment provision in the central scenario would increase by £0.4m (2023: £0.1m).

26. Derivative financial instruments and hedge accounting

Introduction

The Group uses derivative financial instruments such as interest rate swaps for risk management purposes only. Each such derivative contract is entered into for economic hedging purposes to manage a particular identified risk (as described in notes 62 to 65) and any gains or losses arising are incidental to this objective. No trading in derivative financial instruments is undertaken.

Hedge accounting is applied where appropriate, though some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under the IAS 39 rules, particularly where the hedged risk relates to an off balance sheet item. In other cases, hedge accounting has not been adopted either because natural accounting offsets are expected or because complying with the IAS 39 hedge accounting rules would be particularly onerous.

The Group's hedging arrangements can be analysed for accounting purposes between:

- Fair value hedges of portfolio interest rate risk, which are used to manage the interest rate risk inherent in fixed rate lending and deposit taking
- Fair value hedges of interest rate risk relating to individual financial assets or liabilities.

An economic hedge of the interest rate risk in fixed rate lending must also address pipeline exposures, where future lending at a given fixed rate is anticipated. However, such pre-hedging arrangements do not qualify as hedges for accounting purposes.

In addition, the Group utilises currency derivatives to hedge its exposure on the small amount of its lending denominated in foreign currencies. These are not treated as hedges for accounting purposes due to the low level of exposure.

While the Group utilises economic hedging strategies to mitigate the impact of the changes in market interest rates on its capital base, these activities do not give rise to accounting entries.

The analysis below splits derivatives between those accounted for within portfolio fair value hedges and those which, despite representing an economic hedge, are not accounted for as hedges.

	2024 Assets £m	**2024 Liabilities £m**	2023 Assets £m	2023 Liabilities £m
Derivatives in hedge accounting relationships				
Fair value portfolio hedges				
Interest rate swaps				
Fixed to floating	**216.3**	**(44.7)**	519.0	(5.1)
Floating to fixed	**123.8**	**(1.7)**	76.2	(27.0)
Total derivatives in portfolio fair value hedging relationships	**340.1**	**(46.4)**	595.2	(32.1)
Individual fair value hedges				
Fixed to floating	**5.9**	**(8.4)**	-	-
Floating to fixed	**0.3**	**-**	-	(3.7)
Total derivatives in hedge accounting relationships	**346.3**	**(54.8)**	595.2	(35.8)
Other derivatives				
Interest rate swaps	**45.5**	**(44.9)**	20.2	(4.1)
Currency futures	**-**	**-**	-	-
Total recognised derivative assets / (liabilities)	**391.8**	**(99.7)**	615.4	(39.9)

The credit risk inherent in the derivative financial assets shown above is discussed in note 63.

The balances held on the Group's balance sheet relating to the hedging of interest rate risk on its fixed rate customer loan and deposit balances are summarised below.

	Note	2024	2023
		£m	£m
Derivative financial instruments			
Assets		**391.8**	615.4
Liabilities		**(99.7)**	(39.9)
		292.1	575.5
Fair value hedging adjustments			
On loans to customers	*18*	**(75.2)**	(379.3)
On investment securities	*17*	**7.7**	-
On retail deposits	*33*	**(16.7)**	30.9
On borrowings		**(0.3)**	3.7
		(84.5)	(344.7)
Net balance sheet position		**207.6**	230.8
Collateral balances			
Posted (in sundry assets)	*27*	**-**	-
Received (in sundry liabilities)	*40*	**(103.6)**	(383.4)
		(103.6)	(383.4)

(a) Fair value macro hedges

Background and hedging objectives

The Group's fair value hedges of portfolios of interest rate risk ('macro hedges') arise from its management of the interest rate risk inherent in its fixed rate lending and deposit taking activities. These activities would expose the Group to movement in market interest rates if not hedged.

This position arises naturally where fixed rate loans are funded with floating or variable rate borrowings, as in the Group's securitisation transactions, but may also arise where retail deposit funding is used. Where possible the Group takes advantage of natural hedging between fixed rate assets and deposits, but it is unlikely that a precise match for value and tenor of the instruments could be achieved leaving unmatched items on both sides. This is referred to as repricing or duration risk and is controlled within limits under the Group's interest rate risk management process, described in note 63. In order to manage these exposures, they are hedged with financial derivatives and form part of the Group's portfolio hedging arrangements. Duration risk is monitored regularly to ensure mismatches or gaps remain within limits set by policy.

Responsibility to direct and oversee structural interest rate risk management has been delegated by the Board to the Executive Risk Committee ('ERC') and by ERC to the Asset and Liability Committee ('ALCO'). A hedging strategy is developed for each fixed product considering behavioural characteristics, such as whether a customer is likely to prepay before contractual maturity. This is reviewed from time-to-time with any changes agreed with ALCO.

In order to manage potential exposure to changes in interest rates between the point at which fixed rate products are priced and the advance date, it may be necessary to undertake pre-hedging of assets in the pipeline. Interest rate swaps used to pre-hedge pipeline loan exposures, which are not yet recognised on the balance sheet, can cause unmatched fair value costs or credits to arise until both sides of the hedge can be recognised within the interest rate portfolio hedging arrangement, generally a few months after the inception of the derivative contract.

In managing interest rate exposure, Treasury may use interest rate swaps, forward rate agreements, swaptions or interest rate caps and floors. However, interest rate swaps are the most generally used instruments.

This policy creates two macro hedges:

- The 'loan hedge' matching fixed rate buy-to-let mortgage assets, or other fixed rate assets, with interest rate swaps to convert the interest receivable to a floating rate
- The 'deposit hedge' matching fixed rate deposits with interest rate swaps which operates in the opposite direction, converting the fixed rate interest payable to floating rate amounts

During the year the Group has continued to hedge interest rate risk on fixed rate CBILS and BBLS exposures using SONIA-linked balance guaranteed swaps, which are included in the loan hedge.

The designation of the macro hedges is updated, on a month-by-month basis, using software which compares the overall tenor, value and rate positions in order that the expected fair value movement of the designated swaps matches the expected interest rate risk related movement in the fair value of the relevant assets or liabilities as closely as possible over the designation period. The software applies regression analysis techniques to the potential impact of changes in expected interest rates over the designation period to maximise expected hedge effectiveness on a prospective basis. The value of the portfolio of loans or deposits selected is then designated, as a monetary amount of interest rate risk, as the hedged item, while the portfolio of swaps selected are designated as the hedging instruments.

Any swaps not selected in this process are disclosed as derivatives not in hedging relationships. These will generally be swaps taken out to pre-hedge the pipeline of fixed rate mortgage offers, which will match with the related loans when they complete.

At the end of each designation period the Group will assess the effectiveness of each hedge retrospectively, based on fair value movements (relating to interest rate risk components only) which have occurred in the period. Movements are compared to pre-determined test thresholds using regression techniques to determine whether the hedge was effective in the period.

Potential sources of ineffectiveness

The Group has identified the following possible sources of hedge ineffectiveness in its portfolio hedges of interest rate risk:

- The maturity profile of the hedging instruments may not exactly match that of the hedged items, particularly where hedged items settle early
- The use of derivatives as a hedge of interest rate risk additionally exposes the Group to the derivative counterparties' credit risk, which is not matched in the hedged item. This risk is minimised by transacting only with high quality counterparties and through collateralisation arrangements (as described in note 63)
- The use of different discounting curves in measuring fair value changes in the hedged items and hedging instruments
- Difference in the timing of interest payments on the hedged items and settlements on the hedging instruments

These sources of ineffectiveness are minimised by the portfolio matching process, which seeks to match the terms of the items as closely as possible.

In addition to the hedging ineffectiveness described above, group profit will also be affected by the fair value movements of interest rate swap agreements which were entered into as part of the Group's interest rate risk hedging strategy but failed to find a match in the hedging portfolio, particularly those relating to the pre-hedging of the lending pipeline.

Hedging Instruments

The hedging portfolios at 30 September 2024 and 30 September 2023 consist of a large number of sterling denominated swaps. In addition, there are a small number of Balance Guarantee Swaps ('BGS') in place at both dates. Settlement on all swaps is generally quarterly (monthly for BGS) where:

- One payment is calculated based on a fixed rate of interest and the nominal value of the swap
- An opposite payment is calculated based on the same nominal value but using a floating interest rate set at a fixed margin over the SONIA reference rate

On the BGS the nominal value of the swap is linked to the principal value of a pool of assets and reduces in line with redemptions and repayments until maturity. Other interest rate swaps have a fixed nominal value throughout their lives.

The Group pays fixed rate and receives floating when hedging exposures from fixed rate assets (in the loan hedge). Conversely, the Group pays floating rate and receives fixed rate when hedging fixed rate deposits, in the deposit hedge.

The principal terms of the hedging instruments are set out below, analysed between the two directions of the swap.

	2024		2023	
	Deposit Hedge	**Loan Hedge**	Deposit Hedge	Loan Hedge
Average fixed notional interest rate	**4.73%**	**2.53%**	4.22%	1.77%
Average notional margin over SONIA	**-**	**-**	-	-
	£m	**£m**	£m	£m
Notional principal value				
SONIA BGS	**-**	**17.7**	-	31.6
Other SONIA swaps	**6,119.2**	**8,081.2**	6,257.0	7,781.8
	6,119.2	**8,098.9**	6,257.0	7,813.4
Maturing				
Within one year	**4,942.2**	**1,234.1**	5,253.5	1,616.3
Between one and two years	**1,097.0**	**1,930.7**	857.5	1,238.0
Between two and five years	**80.0**	**4,916.4**	146.0	4,959.1
More than five years	**-**	**17.7**	-	-
	6,119.2	**8,098.9**	6,257.0	7,813.4
Fair value	**122.1**	**171.6**	49.2	513.9

The values included above for BGS are analysed by their contractual maturity dates although, due to the terms of the instruments, it is likely that the balance outstanding will reduce more quickly.

The changes in the levels of hedging shown above arise from the growth in the Group's loan book and the decline in the fixed rate deposit book in the year. The changes in fair value are a result of moves in market implied interest rates compared to the rates on the fixed legs of the swaps.

Accounting impacts

Movements affecting the portfolio fair value hedges during the year are set out below.

	2024		2023	
	Deposit hedge	**Loan hedge**	Deposit hedge	Loan hedge
	£m	**£m**	£m	£m
Hedging instruments				
Interest rate swaps				
Included in derivative financial assets	**123.8**	**216.3**	76.2	519.0
Included in derivative financial liabilities	**(1.7)**	**(44.7)**	(27.0)	(5.1)
	122.1	**171.6**	49.2	513.9
Notional principal value	**6,119.2**	**8,098.9**	6,257.0	7,813.4
Change in fair value used in calculating hedge ineffectiveness	**48.7**	**(339.6)**	77.7	(262.2)

	2024		2023	
	Deposit hedge	**Loan hedge**	Deposit hedge	Loan hedge
	£m	**£m**	£m	£m
Hedged items				
Fixed rate deposits				
Monetary amount of risk relating to Retail Deposits	**5,568.6**	**-**	5,758.1	-
Fixed rate loans				
Monetary amount of risk relating to Loans to Customers	**-**	**8,135.2**	-	8,043.5
Accumulated amount of fair value hedge adjustments included on balance sheet (notes 33 and 18)*	**(16.7)**	**(75.2)**	30.9	(379.3)
Of which: amounts related to discontinued hedging relationships being amortised	**(0.6)**	**73.4**	(4.3)	108.2
Change in fair value used in recognising hedge ineffectiveness	**(41.4)**	**336.5**	(69.9)	238.5
Hedge ineffectiveness recognised				
Included in fair value gains / (losses) in the profit and loss account (note 12)	**7.3**	**(3.1)**	7.8	(23.7)

*Under the IAS 39 rules relating to fair value hedge accounting for portfolios of interest rate risk, the change in the fair value of the hedged items attributable to the hedged risk is shown as 'fair value adjustments from portfolio hedging' next to the carrying value of the hedged assets or liabilities in the appropriate note.

(b) Fair value micro hedges

Background and hedging objectives

The Group's individual fair value hedges of interest rate risk ('micro hedges') relate to its long-term fixed interest rate liabilities and its investments in fixed rate securities. The structure of these borrowings and investments exposes the Group to interest rate risk, in the event of an adverse movement in market interest rates and it hedges against such movements.

In each case the hedge takes the form of a single interest rate swap which is intended to be in place for the expected fixed rate period of the related borrowing or investment. The terms of the fixed rate leg of the derivative match the terms of the borrowing or investment as far as possible and each hedging relationship was designated at the point at which the swap contract was entered into.

Each hedging relationship is tested for effectiveness on a monthly basis by comparing the movements in the calculated fair value of the hedged item to the fair value movement in the derivative hedge.

Potential sources of ineffectiveness

In its interest rate hedging for individual items the Group seeks to minimise hedge ineffectiveness by aligning the terms of the hedging instrument as closely as possible with those of the hedged item. The notional amount of the derivative matches that of the hedged item and settlements are due on the same days and at the same intervals.

Nonetheless, the Group has identified the following possible sources of hedge ineffectiveness in its hedges of interest rate risk:

- The use of derivatives as a hedge of interest rate risk additionally exposes the Group to the derivative counterparties' credit risk, which is not matched in the hedged item. This risk is minimised by transacting only with high quality counterparties and through collateralisation arrangements (as described in note 63)
- The small difference between the fixed rate of interest charged on the hedged item and the fixed rate leg of the derivative, where the impact of discounting will mean that movements in present values of the two flows are not exactly parallel
- The use of different discounting curves in measuring fair value changes in the hedged items and hedging instruments

Hedging instrument

The financial derivatives used in the Group's individual fair value hedges are sterling denominated interest rate swaps, with a single derivative used to hedge each individual asset or liability. Settlement is twice yearly, on the same days as payments for the associated hedged item fall due. For derivatives hedging liabilities, payments received by the Group are calculated based on a fixed rate of interest, while payments made are calculated based on a floating interest rate set by reference to the compound SONIA reference rate. For derivatives hedging assets, the converse is true.

The principal terms of the hedging instruments are set out below, analysed by the two directions of the swaps.

	2024		2023	
	Asset hedges	**Liability hedge**	Asset hedges	Liability hedge
Average fixed notional interest rate	**4.50%**	**3.99%**	-	3.99%
Average notional margin over SONIA	**-**	**-**	-	-
	£m	£m	£m	£m
Notional principal value				
SONIA swaps	**400.0**	**150.0**	-	150.0
	400.0	**150.0**	-	150.0
Maturing				
Within one year	**-**	**-**	-	-
Between one and two years	**-**	**150.0**	-	-
Between two and five years	**-**	**-**	-	150.0
More than five years	**400.0**	**-**	-	-
	400.0	**150.0**	-	150.0
Fair value	**(2.5)**	**0.3**	-	(3.7)

Accounting impacts

Movements affecting the micro fair value hedges during the year are set out below.

	2024		2023	
	Asset hedges	**Liability hedge**	Asset hedges	Liability hedge
	£m	**£m**	£m	£m
Hedging instruments				
Interest rate swaps				
Included in derivative financial assets	**5.9**	**0.3**	-	-
Included in derivative financial liabilities	**(8.4)**	**-**	-	(3.7)
	(2.5)	**0.3**	-	(3.7)
Notional principal value	**400.0**	**150.0**	-	150.0
Change in fair value used in calculating hedge ineffectiveness	**(4.3)**	**4.0**	-	(3.7)

	2024		2023	
	Asset hedges	**Liability hedge**	Asset hedges	Liability hedge
	£m	**£m**	£m	£m
Hedged items				
Fixed rate borrowings				
Corporate bond	**-**	**(150.0)**	-	(150.0)
Fixed rate assets				
Investment securities	**400.0**	**-**	-	-
	400.0	**(150.0)**	-	(150.0)
Accumulated amount of fair value hedge adjustments included in carrying value	**4.3**	**(4.0)**	-	3.7
Of which: amounts related to discontinued hedging relationships being amortised	**-**	**-**	-	-
Change in fair value used in recognising hedge ineffectiveness	**4.3**	**(4.0)**	-	3.7
Hedge ineffectiveness recognised				
Included in fair value gains / (losses) in the profit and loss account (note 12)	**-**	**-**	-	-

(c) Derivatives not in a hedge relationship

The Group's other derivatives comprise:

- Interest rate swaps which are economically part of the Group's portfolio hedging arrangements but failed to find a match in the hedge designation, particularly including swaps pre-hedging interest rate risk on the new lending pipeline
- Currency futures, economically hedging exposures on lending denominated in currency, where hedge accounting has not been adopted due to the size of the exposure

The principal terms of these derivatives are set out below.

Interest rate swaps

	2024		2023	
	Pay fixed	**Pay floating**	Pay fixed	Pay floating
Average fixed notional interest rate	**2.22%**	**2.58%**	3.88%	5.52%
Average notional margin over SONIA	**-**	**-**	-	-
	£m	£m	£m	£m
Notional principal value				
SONIA swaps	**1,058.1**	**1,184.7**	708.0	722.6
	1,058.1	**1,184.7**	708.0	722.6
Maturing				
Within one year	**78.0**	**385.0**	7.5	583.5
Between one and two years	**218.6**	**209.6**	23.5	126.0
Between two and five years	**761.5**	**590.1**	457.0	13.1
More than five years	**-**	**-**	220.0	-
	1,058.1	**1,184.7**	708.0	722.6
Fair value	**44.2**	**(43.6)**	15.2	0.9

Currency futures

	2024	2023
US dollar futures		
Average future exchange rate	**1.34**	1.22
	£m	**£m**
Notional principal value	**4.5**	7.6
Maturing		
Within one year	**4.5**	7.6
Between one and two years	**-**	-
Between two and five years	**-**	-
	4.5	7.6
Fair value	**-**	-

27. Sundry assets

(a) The Group

	Note	2024	2023	2022
		£m	£m	£m
Receivable in less than one year				
Accrued interest income		**11.1**	4.6	1.0
Trade receivables		**1.5**	1.5	1.9
CSA assets	*26*	**-**	-	-
CRDs		**-**	38.0	30.2
Sovereign receivables		**0.2**	0.1	0.3
Other receivables		**3.0**	1.8	2.0
Sundry financial assets	*71*	**15.8**	46.0	35.4
Prepayments		**4.9**	5.0	3.8
		20.7	51.0	39.2

Cash ratio deposits ('CRDs') were non-interest-bearing deposits lodged with the Bank of England, based on the value of the Bank's eligible liabilities. These deposits were required to comply with regulatory rules, but the scheme was terminated by the Bank of England during the year.

CSA assets are deposits placed with highly rated banks to act as security for the Group's derivative financial liabilities.

Neither of these balances is accessible by the Group at the balance sheet date. Therefore, they are included in sundry assets rather than cash balances.

Sovereign receivables includes amounts receivable from the UK Government under the BBB sponsored schemes.

CRDs, CSA assets, sovereign receivables and accrued interest are considered to be Stage 1 assets for IFRS 9 impairment purposes. The probabilities of default of the obligor institutions (the UK Government, Bank of England and major banks) have been assessed and are considered to be so low as to require no significant impairment provision.

(b) The Company

	2024	2023	2022
	£m	£m	£m
Receivable in less than one year			
Intra-group treasury deposit	**107.6**	193.6	-
Amounts owed by group companies	**20.9**	35.0	39.1
Accrued interest income	**0.1**	0.1	0.1
	128.6	228.7	39.2

The intra-group treasury balances comprise a 100-day notice balance and a current balance, both with the Company's subsidiary, Paragon Bank PLC, which invests cash with the Bank of England on a centralised basis.

The amounts owed to the Company by other group entities are considered to be Stage 1 balances for IFRS 9 impairment purposes. The PD of the subsidiaries has been assessed in the context of the Group's overall funding and asset position, and is considered to be so low as to require no significant impairment provision.

28. Current tax assets / liabilities

Current tax in the Group and the Company represents UK corporation tax owed or recoverable.

29. Property, plant and equipment

(a) The Group

	Leased assets £m	Land and buildings £m	Plant and machinery £m	Total £m
Cost				
At 1 October 2022	72.2	35.7	14.0	121.9
Additions	15.9	1.4	2.6	19.9
Disposals	(6.6)	(0.1)	(1.9)	(8.6)
At 30 September 2023	81.5	37.0	14.7	133.2
Additions	13.6	0.3	2.5	16.4
Disposals	(7.1)	(0.8)	(2.2)	(10.1)
At 30 September 2024	**88.0**	**36.5**	**15.0**	**139.5**
Accumulated depreciation				
At 1 October 2022	30.6	8.8	11.1	50.5
Charge for the year	10.7	2.2	1.7	14.6
On disposals	(4.6)	(0.1)	(1.9)	(6.6)
At 30 September 2023	36.7	10.9	10.9	58.5
Charge for the year	11.6	3.7	1.7	17.0
On disposals	(4.9)	(0.7)	(1.4)	(7.0)
At 30 September 2024	**43.4**	**13.9**	**11.2**	**68.5**
Net book value				
At 30 September 2024	**44.6**	**22.6**	**3.8**	**71.0**
At 30 September 2023	44.8	26.1	3.8	74.7
At 30 September 2022	41.6	26.9	2.9	71.4

Land and buildings and plant and machinery shown above are used within the Group’s business. Leased assets includes £30.4m in respect of assets leased to customers under operating leases (2023: £31.3m), £0.7m of vehicles leased to employees under the Group’s green car salary sacrifice scheme (2023: £0.5m) and £13.5m of assets available for hire (2023: £13.0m).

The carrying values of right of use of assets, in respect of leases where the Group is the lessee, included in property, plant and equipment are set out below.

	Leased assets	Land and buildings	Plant and machinery	Total
	£m	£m	£m	£m
Cost				
At 1 October 2022	-	11.6	1.8	13.4
Additions	0.6	1.0	1.4	3.0
Disposals	-	(0.1)	(0.4)	(0.5)
At 30 September 2023	0.6	12.5	2.8	15.9
Additions	0.5	0.3	1.6	2.4
Disposals	-	(0.8)	(1.6)	(2.4)
At 30 September 2024	**1.1**	**12.0**	**2.8**	**15.9**
Accumulated depreciation				
At 1 October 2022	-	3.7	1.1	4.8
Charge for the year	0.1	1.7	0.7	2.5
On disposals	-	(0.1)	(0.4)	(0.5)
At 30 September 2023	0.1	5.3	1.4	6.8
Charge for the year	0.3	3.1	0.7	4.1
On disposals	-	(0.8)	(0.9)	(1.7)
At 30 September 2024	**0.4**	**7.6**	**1.2**	**9.2**
Net book value				
At 30 September 2024	**0.7**	**4.4**	**1.6**	**6.7**
At 30 September 2023	0.5	7.2	1.4	9.1
At 30 September 2022	-	7.9	0.7	8.6

During the year ended 30 September 2018, the Group entered into a transaction with the Paragon Pension Plan, effectively granting a first charge over its freehold head office building as security for its agreed contributions under the recovery plan. The carrying value of the assets subject to this charge was £16.4m (2023: £16.8m).

Depreciation on property, plant and equipment is included in the Group's profit and loss account as set out below.

	Note	**2024**	2023
		£m	£m
Operating expenses	*8*	**5.4**	3.9
Leasing costs	*6*	**11.6**	10.7
Total depreciation		**17.0**	14.6

Depreciation of £11.4m included in leasing costs (2023: £10.6m) is attributable to the Commercial Lending segment described in note 2. No other depreciation is allocated to a segment.

(b) The Company

The property, plant and equipment balance of the Company represents a right of use asset in respect of a building leased from a fellow group entity. The carrying value of this asset is set out below.

	Land and buildings £m
Cost	
At 1 October 2022, 30 September 2023 and 30 September 2024	18.8
Accumulated depreciation	
At 1 October 2022	4.2
Charge for the year	1.4
On disposals	-
At 30 September 2023	5.6
Charge for the year	1.4
On disposals	-
At 30 September 2024	**7.0**
Net book value	
At 30 September 2024	**11.8**
At 30 September 2023	13.2
At 30 September 2022	14.6

30. Intangible assets

	Goodwill (note 31)	Computer software	Other intangible assets	Total
	£m	£m	£m	£m
Cost				
At 1 October 2022	170.4	16.5	10.6	197.5
Additions	-	1.6	-	1.6
Derecognition	(7.6)	-	(8.1)	(15.7)
At 30 September 2023	162.8	18.1	2.5	183.4
Additions	-	4.5	-	4.5
Derecognition	-	-	-	-
At 30 September 2024	**162.8**	**22.6**	**2.5**	**187.9**
Accumulated amortisation and impairment				
At 1 October 2022	6.0	12.6	8.7	27.3
Amortisation charge for the year	-	1.1	0.7	1.8
Derecognition	(6.0)	-	(7.9)	(13.9)
At 30 September 2023	-	13.7	1.5	15.2
Amortisation charge for the year	-	0.9	0.3	1.2
Derecognition	-	-	-	-
At 30 September 2024	**-**	**14.6**	**1.8**	**16.4**
Net book value				
At 30 September 2024	**162.8**	**8.0**	**0.7**	**171.5**
At 30 September 2023	162.8	4.4	1.0	168.2
At 30 September 2022	164.4	3.9	1.9	170.2

Other intangible assets comprise brands and the benefit of business networks recognised on the acquisition of businesses. Derecognitions above relate to the cessation of the TBMC business (note 10).

Amortisation charges in respect of intangible assets are included in operating expenses (note 8).

31. Goodwill

The goodwill carried in the accounts is attributable to two cash generating units ('CGU's), which have not changed in the year. These balances are reviewed for impairment annually, in accordance with the requirements of IAS 36 – 'Impairment of Assets'. The balance is as analysed below:

	2024	2023
	£m	£m
CGU		
SME lending	**113.0**	113.0
Development finance	**49.8**	49.8
	162.8	162.8

(a) SME lending

The goodwill carried in the accounts relating to the SME lending CGU was recognised on acquisitions in the years ended 30 September 2016 and 30 September 2018.

An impairment review undertaken at 30 September 2024 indicated that no write down was required.

The recoverable amount of the SME lending CGU used in this impairment testing is determined on a value in use basis using pre-tax cash flow projections based on financial budgets approved by the Board in November 2024 covering a five-year period.

The key assumptions underlying the value in use calculation for the SME lending CGU are:

- Level of business activity, based on management expectations. The forecast assumes a compound annual growth rate ('CAGR') for new lending over the five-year period of 11.7%, compared with 14.1% used in the calculation at 30 September 2023. The new lending forecasts are the key driver for the profit and cashflow forecasts. Cash flows beyond the five-year budget are extrapolated using a constant growth rate of 1.2% (2023: 1.2%) which does not exceed the long-term average growth rates for the markets in which the business is active

Management have concluded that the levels of activity assumed for the purpose of this forecast are reasonable, based on past experience and the current economic environment

- Discount rate, which is based on third-party estimates of the implied industry cost of capital. The pre-tax discount rate applied to the cash flow projection is 16.5% (2023: 16.2%)

As an illustration of the sensitivity of this impairment test to movements in key assumptions, the Group has calculated that a 0.0% growth rate combined with a 19.8% reduction in profit levels would eliminate the projected headroom of £91.7m. While such movements are not expected by management, they are considered 'reasonably possible' for the purposes of IAS 36. A 0.0% growth rate combined with an 22.6% reduction in profit levels would generate a write down of £10.0m.

In the testing carried out at 30 September 2023, a 0.0% growth rate combined with an 11.5% reduction in profit levels, would have eliminated the projected headroom at that date of £59.1m. A 0.0% growth rate combined with a 14.4% reduction in profit levels would have generated a write down of £10.0m.

(b) Development finance

The goodwill carried in the accounts relating to the development finance CGU was first recognised on a business acquisition in the year ended 30 September 2018.

An impairment review undertaken at 30 September 2024 indicated that no write down was required.

The recoverable amount of the development finance CGU used in this impairment testing is determined on a value in use basis using pre-tax cash flow projections based on financial budgets approved by the Board in November 2024 covering a five-year period.

The key assumptions underlying the value in use calculation for the development finance CGU are:

- Level of business activity, based on management expectations. The forecast assumes a CAGR for drawdowns over the five-year period of 15.6%, compared with 11.1% used in the calculation at 30 September 2023. Cash flows beyond the five-year budget are extrapolated using a constant growth rate of 1.2% (2023: 1.2%) which does not exceed the long-term average growth rate for the UK economy

Management have concluded that the levels of activity assumed for the purpose of this forecast are reasonable, based on past experience and the current economic environment.

- Discount rate, which is based on third party estimates of the implied industry cost of capital. The pre-tax discount rate applied to the cash flow projection is 16.4% (2023: 15.9%)

As an illustration of the sensitivity of this impairment test to movements in key assumptions, the Group has calculated that a 0.0% growth rate combined with a 9.5% reduction in profit levels would eliminate the projected headroom of £53.2m. While such movements are not expected by management, they are considered 'reasonably possible' for the purposes of IAS 36. A 0.0% growth rate combined with a 12.1% reduction in profit levels would generate a write down of £10.0m.

In the testing carried out at 30 September 2023 a 1.1% growth rate combined with a 3.1% reduction in profit levels would have eliminated the projected headroom at that date of £13.9m. A 0.2% growth rate combined with a 2.9% reduction in profit would have generated a write down of £10.0m.

32. Investment in subsidiary undertakings

	Shares in group companies	Loans to group companies	Total
	£m	£m	£m
At 1 October 2022	638.7	257.0	895.7
Loans repaid	-	(107.0)	(107.0)
Provision movements	(1.2)	-	(1.2)
At 30 September 2023	637.5	150.0	787.5
Loans repaid	-	-	-
Provision movements	(0.7)	-	(0.7)
At 30 September 2024	**636.8**	**150.0**	**786.8**

Amounts shown above for 2022 and 2023 have been restated as described in note 66.

Loans to group companies includes principally investments in the tier 2 equity instruments issued by the Company's banking subsidiary, Paragon Bank PLC.

During the year ended 30 September 2024 the Company received £161.9m in dividend income from its subsidiaries (2023: £262.5m) and £19.4m of interest on loans to group companies (2023: £18.6m).

The Company's subsidiaries, and the nature of its interest in them, are shown in note 72.

33. Retail deposits

The Group's retail deposits, held by Paragon Bank PLC, were received from customers in the UK and are denominated in sterling. The deposits comprise principally term deposits, and notice and easy access accounts. The method of interest calculation on these deposits is analysed as follows:

	2024	2023	2022
	£m	£m	£m
Fixed rate	**8,257.2**	8,690.2	6,201.3
Variable rates	**8,040.8**	4,575.1	4,467.9
	16,298.0	13,265.3	10,669.2

The weighted average interest rate on retail deposits at 30 September 2024, analysed by the charging method, was:

	2024	2023	2022
	%	%	%
Fixed rate	**4.77**	4.07	1.74
Variable rates	**4.19**	3.74	1.55
All deposits	**4.49**	3.95	1.66

The contractual maturity of these deposits is analysed below.

	2024	2023	2022
	£m	£m	£m
Amounts repayable			
In less than three months	**1,621.4**	1,589.4	929.0
In more than three months, but not more than one year	**4,847.1**	5,193.7	3,732.1
In more than one year, but not more than two years	**1,502.6**	1,643.0	1,627.3
In more than two years, but not more than five years	**615.0**	631.8	421.4
Total term deposits	**8,586.1**	9,057.9	6,709.8
Repayable on demand	**7,711.9**	4,207.4	3,959.4
	16,298.0	13,265.3	10,669.2
Fair value adjustments for portfolio hedging (note 26)	**16.7**	(30.9)	(99.7)
	16,314.7	13,234.4	10,569.5

34. Asset backed loan notes

While the Group has several issues of asset-backed loan notes outstanding, at 30 September 2024 all of these were held internally and used as security for other borrowings.

The Group's asset backed loan notes are rated and publicly listed and are secured on portfolios comprising variable and fixed rate mortgages. The maturity date of the notes matches the maturity date of the underlying assets. The notes can be prepaid in part from time-to-time, but such prepayments are limited to the net capital received from borrowers in respect of the underlying assets. There is no requirement for the Group to make good any shortfall on the notes out of general funds. It is likely that a substantial proportion of the notes will be repaid within five years.

The Group also has an option to repay all the notes on any issue at an earlier date (the 'call date'), at their outstanding principal amount.

Interest is payable on the notes at a fixed margin above the compounded Sterling Overnight Interbank Average Rate ('SONIA') and they are all denominated in sterling.

The Group publishes detailed information on the performance of all its note issues on the Bond Investor Reporting section of its website at www.paragonbankinggroup.co.uk. A more detailed description of the securitisation structure under which these notes are issued is given in note 64.

Notes in issue at 30 September 2024 and 30 September 2023, net of any held by the Group, were:

Issuer	Maturity date	Call date	Principal outstanding		Average interest margin	
			2024	2023	**2024**	2023
			£m	£m	**%**	%
Paragon Mortgages (No. 26) PLC	15/05/45	15/08/24	-	28.4	-	1.05
Paragon Mortgages (No. 27) PLC †	15/04/47	15/10/25	-	-	-	-
Paragon Mortgages (No. 28) PLC †	15/12/47	15/12/25	-	-	-	-
Paragon Mortgages (No. 29) PLC †	15/12/55	15/12/28	-	-	-	-

†All notes issued by Paragon Mortgages (No. 27), Paragon Mortgages (No. 28) and Paragon Mortgages (No. 29) were retained by the Group (see note 64).

The details of the assets backing these securities are given in note 18.

During the year, on 15 August 2024, the Group redeemed all of the outstanding notes of the Paragon Mortgages (No. 26) PLC securitisation at par. The underlying assets were subsequently funded by other group companies.

On 1 November 2023, a group company, Paragon Mortgages (No. 29) PLC, issued £855.0m of sterling mortgage backed floating rate notes, analysed below, at par.

Class	Fitch Rating	Moody's rating	Interest margin above compounded SONIA	Principal value
				£m
A	AAA	Aaa	1.20%	**747.0**
B	AA	Aa1	1.90%	**33.7**
C	A-	Aa2	2.75%	**29.3**
D	B+	A2	3.80%	**45.0**
				855.0

All the above notes were retained by the Group.

On 26 June 2019, the Group disposed of its beneficial interest in the Paragon Mortgages (No. 12) PLC securitisation. At that point, the FRN liabilities were derecognised by the Group, although the notes remain in issue. The Group's continuing involvement in the transaction is described in note 53.

35. Bank borrowings

Historically new first mortgage lending was partly funded through secured bank loans, referred to as 'warehouse facilities' before being refinanced with either wholesale or retail funding.

The last of these facilities was repaid in the financial year ended 30 September 2023 and no amounts were outstanding or available at any time in the current year.

The available facilities in the year ended 30 September 2023 were:

i) The Paragon Second Funding warehouse which was available for drawings until 29 February 2008 at which point it converted automatically to a term loan and no further drawings were allowed. The loan was repaid in full on 29 September 2023. This loan was a sterling facility provided to Paragon Second Funding Limited by a consortium of banks and was secured on all the assets of Paragon Second Funding Limited, Paragon Car Finance (1) Limited and Paragon Personal Finance (1) Limited. Interest on this loan was payable monthly at 0.704% above SONIA.

ii) The Paragon Seventh Funding warehouse facility, originally of £200.0m, which was agreed in November 2018. The facility was secured over all the assets of Paragon Seventh Funding Limited. This facility was renewed and revised from time-to-time and by the year ended 30 September 2023 the maximum drawing had increased to £450.0m, with interest payable at 0.5% above SONIA. The facility expired on 24 July 2023.

36. Retail bonds

The Group's final outstanding issue of retail bonds, issued under its Euro Medium Term Note Programme, was repaid in the year, on 28 August 2024. These bonds were listed on the London Stock Exchange. The principal amount of notes in issue at 30 September 2023 was £112.5m and they bore interest at a fixed rate of 6.0% per annum.

The notes were unsubordinated unsecured liabilities of the Company and the amount included in the accounts of the Group and the Company in respect of these bonds at 30 September 2023 was £112.4m. No bonds remained outstanding at 30 September 2024.

37. Corporate bonds

On 25 March 2021 the Company issued £150.0m of Fixed Rate Callable Subordinated Tier-2 Notes due 2031 at par. These notes bear interest at a rate of 4.375% per annum until 25 September 2026 after which interest will be payable at a reset rate which is 3.956% over that payable on UK Government bonds of similar duration at that time. These notes are callable at the option of the Company between 25 June 2026 and 25 September 2026 and may be called at any time in the event of certain tax or regulatory changes. The notes are unsecured and subordinated to all creditors of the Company. The notes were originally rated BB+ by Fitch and are currently rated BBB-, following an upgrade on 7 March 2022. The proceeds of the notes are utilised in accordance with the Group's Green Bond Framework, which is available on its investor website.

The carrying value of corporate bonds in the accounts of the Group at 30 September 2024 was £149.9m (2023: £145.8m), while the carrying value of the bonds in the accounts of the Company at 30 September 2024 was £149.6m (2023: £149.4m), with the difference arising as a result of the hedging treatment described in note 26.

38. Central bank facilities

During the year, the Group has utilised facilities provided by the Bank of England through its Sterling Monetary Framework. These facilities enable either funding or off balance sheet liquidity to be provided to Paragon Bank PLC ('Paragon Bank' or 'the Bank') on the security of eligible collateral, currently in the form of designated pools of the Bank's first mortgage assets and/or the retained notes described in note 64, with the amount available based on the value of the security given, subject, where appropriate, to a haircut.

Drawings under the Term Funding Scheme for SMEs ('TFSME') have a maturity of four years and bear interest at Bank Base Rate ('BBR'). The average remaining maturity of the Group's drawings is 14 months (2023: 25 months). As these drawings were provided at rates below those available commercially, by a government agency, they are accounted for under IAS 20.

Drawings under the Indexed Long-Term Repo Scheme ('ILTR') have a maturity of six months and a rate of interest set in an auction process. At 30 September 2024, the average rate of interest on the Group's ILTR drawings was 0.15% above BBR. The Group makes drawings under the ILTR programme from time-to-time for liquidity purposes.

The amounts drawn under these facilities are set out below.

	2024	2023
	£m	£m
TFSME	750.0	2,750.0
ILTR	5.0	-
Total central bank facilities	755.0	2,750.0

All TFSME borrowings fall due after more than one year.

During the year ended 30 September 2022 all TFSME borrowings were repaid and redrawn, extending the maturity date to 21 October 2025 for the majority of drawings, with £5.2m falling due on 31 March 2027.

Further first mortgage assets of the Bank have been pre-positioned with the Bank of England for future use in such schemes and eligible retained notes can also be used to support this funding (note 64). The mortgage assets pledged in support of these drawings are set out in note 18.

The balances arising from the TFSME carried in the Group accounts are shown below.

	2024	2023
	£m	£m
TFSME at IAS 20 carrying value	745.2	2,716.3
Deferred government assistance	4.8	33.7
	750.0	2,750.0

39. Sale and repurchase agreements

From time-to-time the Group enters into short-term sale and repurchase agreements with highly rated UK banks as part of its liquidity management operations.

At 30 September 2024, £100.0m was outstanding under such arrangements (2023: £50.0m). The average term of the agreements was 3.0 months (2023: 3.0 months) and the average remaining term 1.0 month (2023: 2.8 months). The average interest rate payable was 0.44% (2023: 0.80%) above compounded SONIA.

The securities subject to the sale and repurchase agreement were certain of the Group's retained asset backed loan notes, described in note 64.

40. Sundry liabilities

(a) The Group

	Note	2024 £m	2023 £m	2022 £m
Amounts falling due within one year				
Accrued interest		**191.7**	156.7	42.2
Trade creditors		**1.0**	1.6	0.7
CSA liabilities	*26*	**103.6**	383.4	388.6
Purchase of own shares	*47*	**23.8**	-	10.8
Other accruals		**41.6**	35.6	35.9
Sundry financial liabilities at amortised cost		**361.7**	577.3	478.2
Contingent consideration	*41*	**-**	-	2.2
Sundry financial liabilities		**361.7**	577.3	480.4
Lease payables	*42*	**2.9**	2.6	2.2
Deferred income		**4.8**	5.9	3.7
Conduct	*43*	**-**	-	-
Other taxation and social security		**2.7**	4.1	3.7
		372.1	589.9	490.0
Amounts falling due after more than one year				
Accrued interest		**35.0**	31.5	13.0
Other accruals		**1.4**	-	-
Sundry financial liabilities at amortised cost		**36.4**	31.5	13.0
Lease payables	*42*	**5.0**	6.3	6.8
Deferred income		**3.9**	3.5	3.3
		45.3	41.3	23.1
Total sundry financial liabilities at amortised cost		**398.1**	608.8	491.2
Total sundry financial liabilities at fair value		**-**	-	2.2
Total other sundry liabilities		**19.3**	22.4	19.7
Total sundry liabilities		**417.4**	631.2	513.1

CSA liabilities represent collateral received in respect of interest rate swap agreements and are described further in notes 26 and 63.

Other accruals relate principally to the operating cost accruals, including annual bonus schemes.

(b) The Company

	Note	2024 £m	2023 £m	2022 £m
Amounts falling due within one year				
Amounts owed to Group companies		**23.6**	24.0	23.2
Accrued interest		**0.1**	0.7	0.7
Purchase of own shares	*47*	**23.8**	-	10.8
Other financial liabilities		**1.5**	-	1.4
Sundry financial liabilities at amortised cost		**49.0**	24.7	36.1
Lease payables	*42*	**1.4**	1.3	1.3
		50.4	26.0	37.4
Amounts falling due after more than one year				
Lease payables	*42*	**11.0**	12.4	13.7
Total sundry liabilities		**61.4**	38.4	51.1

41. Contingent consideration

The contingent consideration represented consideration payable in respect of corporate acquisitions which were dependent on the performance of the acquired businesses. Movements in the balance are set out below.

	2024	2023
	£m	£m
At 1 October 2023	**-**	2.2
Payments	**-**	(1.5)
Revaluation	**-**	(0.7)
Unwind of discounting	**-**	-
At 30 September 2024 (note 40)	**-**	-

The write downs above were the result of the finalisation of the contingent consideration liability based on actual business volumes.

42. Lease payables

The Group's lease liabilities arise under the leasing arrangements described in note 54. Related right of use assets are shown in note 29.

	The Group		**The Company**	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Leasing liabilities falling due:				
In more than five years	**-**	0.5	**5.2**	6.7
In more than two but less than five years	**2.9**	3.4	**4.4**	4.3
In more than one year but less than two years	**2.1**	2.4	**1.4**	1.4
In more than one year (note 40)	**5.0**	6.3	**11.0**	12.4
In less than one year (note 40)	**2.9**	2.6	**1.4**	1.3
	7.9	8.9	**12.4**	13.7

43. Conduct

The Group, as a regulated participant in the financial services industry, is exposed to a high level of regulatory supervision, which could in the event of conduct failures expose it to additional liabilities. The objective of the Group's compliance and conduct framework, which is supervised by the second line compliance function, is to provide a strong mitigant to this risk, although it is impossible to eliminate it entirely.

As described below, there is significant uncertainty with regard to legal and regulatory interventions around commissions paid in the motor finance market. These processes are far from complete, and therefore the scope and extent of any exposure is unclear. It is also possible that the principles articulated in relation to the motor finance market may turn out to have a broader application.

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

Motor finance commissions

During the year a number of issues were raised surrounding historical practices for the payment of commissions by lenders in the motor finance market. These claims have been pursued through various regulatory and legal routes, and these approaches are not mutually exclusive. Paragon Bank, the Group's principal operating subsidiary was active in this market from 2014, the date of its authorisation, and had written approximately £1,270.0m of motor finance loans by 30 September 2024, and paid out £48.8m of commissions to support the origination of the loans. While the Group has not knowingly breached relevant regulations and does not believe that it has disadvantaged customers, the extent of any potential exposure will not become clear until the issues raised in these claims are clarified.

In January 2024 the FCA announced that it was conducting a review of the historical use of discretionary commission arrangements across the motor finance industry, following action taken in this field by the courts and the Financial Ombudsman Service ('FOS'). At the same time it imposed a pause on the handling of such complaints. The FCA's original intention was to publish its policy on the treatment of such matters before 30 September 2024, but in July 2024 it announced that it required more time to address these issues and now expects to set out its next steps in May 2025. It also proposed to extend its pause on complaint handling until December 2025, to allow for the development of any redress scheme that might be required.

On 25 October 2024, following the year end, the Court of Appeal handed down judgment in the cases of Hopcraft, Wrench and Johnson (the 'Hopcraft case'). This provided a ruling on claims relating to motor finance loans involving 'secret' or 'half secret' commissions paid to the motor dealer who arranged the finance (a 'broker-dealer') by the lender. In these cases, the disclosure of commission was deemed to be either: (a) either absent or insufficient to negate secrecy (and thus the commission was 'secret'); or (b) insufficient to obtain the customer's fully informed consent (and therefore the commission was 'half-secret'). The lenders were deemed to have primary or accessory liability due to the commission paid to the broker-dealer and the claimants were awarded damages against the lenders. The Court of Appeal's common law principle goes over and above the current regulatory requirements and guidance concerning disclosure of commission (including the FCA's CONC rules). We are awaiting confirmation as to whether the Hopcraft case will be successfully appealed to the Supreme Court.

From 2014 to September 2024, the Group paid £9.0 million of commission to broker-dealers, comprising 18% of all motor commissions paid, with the balance being paid to finance brokers and a variety of other different forms of introducers, independent of the vehicle retailer, reflecting differing customer journeys.

The Group has reviewed its own lending practices for motor finance and has issued revised terms and conditions for both customers and intermediaries in late October 2024, addressing the points of law in Hopcraft.

The Group has considered its various exposures at 30 September 2024 and the differing customer journeys and fact patterns underlying them, together with both the potential costs of any remediation or settlement, any interest payable thereon, and the legal and administrative costs which might be involved with the processing of any claims. For the broker-dealer cases noted above, where the broad fact patterns are similar to those in the Hopcraft case, and £9.0m of total commissions were originally paid, an estimate of the liability has been made, and no material provision was identified.

However, the case law in Hopcraft is specific to the fact patterns considered by the Court and therefore additional liabilities may exist in respect of other fact patterns, or from the results of the FCA review and other ongoing legal and regulatory processes which address different issues related to motor finance commissions. While these might impact on the Group's historical lending and result in additional cash outflows, any such amount is uncertain and therefore these are disclosed as contingent liabilities.

It should be noted that the ultimate liability, if any, will be dependent on the resolution of various legal and regulatory processes currently in progress, including, but not limited to, the FCA review, or any further regulatory action, and any further appeal arising from the Hopcraft litigation. These will determine the types of products and lending dates to be considered and thus the size of the customer population impacted, together with the amount and timing of any cash outflows which might be required in respect of those customers. However, at this stage the potential total liability remains uncertain.

44. Deferred tax

(a) The Group

The net deferred tax liability for which provision has been made and the movements in that balance are analysed as follows:

	Opening balance	Profit and loss charge / (credit)		Charge / (credit) to equity	Closing balance
		Current	Prior		
	£m	£m	£m	£m	£m
Year ended 30 September 2024					
Accelerated tax depreciation	**(8.3)**	**(0.3)**	**5.8**	**-**	**(2.8)**
Retirement benefit obligations	**3.1**	**0.6**	**-**	**1.8**	**5.5**
Interest rate hedging	**32.8**	**(13.2)**	**-**	**-**	**19.6**
Loans and other derivatives	**1.4**	**(0.1)**	**(0.1)**	**-**	**1.2**
Share based payments	**(7.5)**	**0.8**	**-**	**(3.0)**	**(9.7)**
Tax losses	**(3.0)**	**2.9**	**0.1**	**-**	**-**
Other timing differences	**(0.8)**	**0.2**	**0.2**	**-**	**(0.4)**
Total	**17.7**	**(9.1)**	**6.0**	**(1.2)**	**13.4**
Year ended 30 September 2023					
Accelerated tax depreciation	(6.9)	(5.0)	3.6	-	(8.3)
Retirement benefit obligations	0.5	1.8	-	0.8	3.1
Interest rate hedging	53.2	(20.4)	-	-	32.8
Loans and other derivatives	2.2	(0.8)	-	-	1.4
Share based payments	(3.7)	(2.8)	-	(1.0)	(7.5)
Tax losses	(0.1)	0.1	(3.0)	-	(3.0)
Other timing differences	(0.8)	(0.2)	0.2	-	(0.8)
	44.4	(27.3)	0.8	(0.2)	17.7

Balances in respect of interest rate hedging in the table above relate to derivatives hedging interest rate risk in the Group's loan and deposit books and related pipelines, and fair value accounting adjustments.

The temporary differences shown above have been provided at the rate prevailing when the Group anticipates these temporary differences to reverse. In the event that the temporary differences actually reverse in different periods a credit or charge will arise in a future period to reflect the difference. The timing of reversal of temporary differences will be affected by both matters within the Group's control (such as the timing and nature of the refinancing of certain portfolios) and matters outside the Group's control (for example, the timing of the Group's contributions to its defined benefit pension scheme).

If temporary differences reverse within Paragon Bank PLC in a period in which it is subject to the banking surcharge, then the impact of the reversal will be at an effective tax rate that includes the banking surcharge to some extent.

The Group has no tax losses in entities whose current taxable profits are insufficient to support the recognition of a deferred tax asset (2023: £3.7m).

(b) The Company

The net deferred tax (asset) / liability for which provision has been made, and the movements in that balance are analysed as follows:

	Opening balance	Profit and loss charge / (credit)		Charge / (credit) to equity	Closing balance
		Current	Prior		
	£m	£m	£m	£m	£m
Year ended 30 September 2024					
Accelerated tax depreciation	**0.1**	**-**	**-**	**-**	**0.1**
Tax losses carried forward	**(1.7)**	**1.7**	**-**	**-**	**-**
Other timing differences	**-**	**-**	**-**	**-**	**-**
Total	**(1.6)**	**1.7**	**-**	**-**	**0.1**
Year ended 30 September 2023					
Accelerated tax depreciation	0.1	-	-	-	0.1
Tax losses carried forward	-	-	(1.7)	-	(1.7)
Other timing differences	-	-	-	-	-
	0.1	-	(1.7)	-	(1.6)

45. Called-up share capital

The share capital of the Company consists of a single class of £1 ordinary shares.

Movements in the issued share capital in the year were:

	2024	2023
	Number	Number
Ordinary shares		
At 1 October 2023	**228,700,413**	241,409,624
Shares issued	**-**	160,833
Shares cancelled	**(18,095,453)**	(12,870,044)
At 30 September 2024	**210,604,960**	228,700,413

During the year ended 30 September 2023, the Company issued 160,833 shares to satisfy options granted under Sharesave schemes for a consideration of £543,954. No such issues were made in the year ended 30 September 2024.

On 1 June 2023, 12,870,044 of the shares held in treasury at that date were cancelled, with 12,095,453 further shares cancelled on 23 February 2024, and 6,000,000 cancelled on 30 August 2024 (note 47).

46. Reserves

(a) The Group

	2024	2023	2022
	£m	£m	£m
Share premium account	**71.4**	71.4	71.1
Capital redemption reserve	**31.0**	12.9	71.8
Merger reserve	**(70.2)**	(70.2)	(70.2)
Profit and loss account	**1,242.1**	1,243.4	1,151.2
	1,274.3	1,257.5	1,223.9

(b) The Company

	2024	2023 (restated)	2022 (restated)
	£m	£m	£m
Share premium account	**71.4**	71.4	71.1
Capital redemption reserve	**31.0**	12.9	71.8
Merger reserve	**(23.7)**	(23.7)	(23.7)
Profit and loss account	**510.5**	543.4	345.3
	589.2	604.0	464.5

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

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

On 28 March 2023 the High Court confirmed the cancellation of the Company's capital redemption reserve, following shareholder 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 balance outstanding on the capital redemption reserve at that time was transferred to the profit and loss account.

47. Own shares

	The Group		The Company	
	2024	2023	**2024**	2023 (restated*)
	£m	£m	**£m**	£m
Treasury shares				
Opening balance	**54.0**	18.2	**54.0**	18.2
Shares purchased	**76.6**	111.5	**76.6**	111.5
Options exercised	**(4.3)**	(8.4)	**(4.3)**	(8.4)
Shares cancelled	**(110.0)**	(67.3)	**(110.0)**	(67.3)
Closing balance	**16.3**	54.0	**16.3**	54.0
ESOP shares				
Opening balance	**21.6**	19.0	**21.6**	19.0
Shares purchased	**12.9**	9.0	**12.9**	9.0
Options exercised	**(9.2)**	(6.4)	**(9.2)**	(6.4)
Closing balance	**25.3**	21.6	**25.3**	21.6
Irrevocable authority to purchase				
Opening balance	**-**	10.8	**-**	10.8
Given in year	**23.8**	-	**23.8**	-
Expiring / utilised in year	**-**	(10.8)	**-**	(10.8)
Closing balance	**23.8**	-	**23.8**	-
Total closing balance	**65.4**	75.6	**65.4**	75.6
Total opening balance	**75.6**	48.0	**75.6**	48.0

* Restated – see note 66

At 30 September 2024 the number of the Company's own shares held in treasury was 2,124,162 (2023: 10,074,002). These shares had a nominal value of £2,124,162 (2023: £10,074,002). These shares do not qualify for dividends.

At 30 September 2024 an irrecoverable instruction for the purchase of shares with a market value of £23.8m to be held in treasury was in place. At 31 October 2024, when regulatory approval for the buy-back programme lapsed, £7.5m of this instruction remained outstanding.

The ESOP shares are held in trust for the benefit of employees exercising their options under the Company's share option schemes and awards under the Paragon PSP and Deferred Share Bonus Plan. The trustees' costs are included in the operating expenses of the Group.

At 30 September 2024, the trust held 4,182,232 ordinary shares (2023: 4,009,490) with a nominal value of £4,182,232 (2023: £4,009,490) and a market value of £32,516,854 (2023: £19,727,084). Options, or other share-based awards, were outstanding against all of these shares at 30 September 2024 (2023: all). The dividends on all of these shares have been waived (2023: all).

48. Equity dividend

Amounts recognised as distributions to equity shareholders in the Group and the Company in the period:

	2024 Per share	2023 Per share	**2024 £m**	2023 £m
Equity dividends on ordinary shares				
Final dividend for the previous year	**26.4p**	19.2p	**56.1**	43.7
Interim dividend for the current year	**13.2p**	11.0p	**27.4**	24.2
	39.6p	30.2p	**83.5**	67.9

Amounts paid and proposed in respect of the year:

	2024 Per share	2023 Per share	**2024 £m**	2023 £m
Interim dividend for the current year	**13.2p**	11.0p	**27.4**	24.2
Proposed final dividend for the current year	**27.2p**	26.4p	**55.6**	56.7
	40.4p	37.4p	**83.0**	80.9

The proposed final dividend for the year ended 30 September 2024 will be paid on 7 March 2025, subject to approval at the AGM, with a record date of 7 February 2025. The dividend will be recognised in the accounts when it is paid.

49. Net cash flow from operating activities

(a) The Group

	2024 £m	2023 £m
Profit before tax	**253.8**	199.9
Non-cash items included in profit and other adjustments:		
Depreciation of operating property, plant and equipment	**5.4**	4.0
(Profit) on disposal of operating property, plant and equipment	**(0.1)**	(0.1)
Amortisation and derecognition of intangible assets	**1.2**	3.6
Non-cash movements on investment securities	**(7.8)**	-
Non-cash movements on borrowings	**4.5**	(2.5)
Impairment losses on loans to customers	**24.5**	18.0
Charge for share based remuneration	**9.2**	9.6
Net (increase) / decrease in operating assets:		
Assets held for leasing	**0.7**	(2.7)
Loans to customers	**(855.7)**	(682.0)
Derivative financial instruments	**223.6**	163.6
Fair value of portfolio hedges	**(304.1)**	(180.6)
Other receivables	**28.0**	(15.0)
Net increase / (decrease) in operating liabilities:		
Retail deposits	**3,032.7**	2,596.1
Derivative financial instruments	**59.8**	(62.2)
Fair value of portfolio hedges	**47.6**	68.8
Other liabilities	**(236.6)**	128.3
Cash generated by operations	**2,286.7**	2,246.8
Income taxes (paid)	**(70.3)**	(75.1)
	2,216.4	2,171.7

Cash flows relating to plant and equipment held for leasing under operating leases are classified as operating cash flows.

(b) The Company

	2024	2023 (restated)
	£m	£m
Profit before tax	**165.7**	264.2
Non-cash items included in profit and other adjustments:		
Depreciation on property, plant and equipment	**1.4**	1.4
Non-cash movements on borrowings	**0.3**	0.3
Impairment provision on investments in subsidiaries	**0.7**	1.2
Charge for share based remuneration	**9.2**	9.6
Net decrease / (increase) in operating assets:		
Other receivables	**100.1**	(189.5)
Net increase / (decrease) in operating liabilities:		
Other liabilities	**0.5**	(0.6)
Cash generated by operations	**277.9**	86.6
Income taxes (paid)	**(1.6)**	(0.8)
	276.3	85.8

50. Net cash flow from investing activities

	The Group		The Company	
	2024	2023	2024	2023 (restated)
	£m	£m	£m	£m
Investment in securities	**(419.6)**	-	**-**	-
Proceeds from sales of operating property, plant and equipment	**0.3**	0.1	**-**	-
Purchases of operating property, plant and equipment	**(0.9)**	(1.6)	**-**	-
Purchases of intangible assets	**(4.5)**	(1.6)	**-**	-
Repayment of loans by subsidiary entities	**-**	-	**-**	107.0
Net cash (utilised) / generated by investing activities	**(424.7)**	(3.1)	**-**	107.0

51. Net cash flow from financing activities

	The Group		The Company	
	2024	2023	**2024**	2023 (restated)
	£m	£m	**£m**	£m
Shares issued (note 45)	**-**	0.5	**-**	0.5
Dividends paid (note 48)	**(83.5)**	(67.9)	**(83.5)**	(67.9)
Repayment of asset backed floating rate notes	**(28.3)**	(382.1)	**-**	-
Repayment of retail bond	**(112.5)**	-	**(112.5)**	-
Repayment of long-term central bank facilities	**(2,000.0)**	-	**-**	-
Movement on short-term central bank facilities	**5.0**	-	-	-
Movement on other bank facilities	**-**	(586.0)	**-**	-
Movement on sale and repurchase agreements	**50.0**	50.0	**-**	-
Capital element of lease payments	**(2.7)**	(2.4)	**(1.3)**	(1.3)
Purchase of own shares (note 47)	**(89.5)**	(120.5)	**(89.5)**	(120.5)
Exercise of share awards	**0.7**	3.4	**0.7**	3.4
Net cash (utilised) by financing activities	**(2,260.8)**	(1,105.0)	**(286.1)**	(185.8)

52. Reconciliation of net debt

(a) The Group

	Opening debt	Cash flows: Debt issued	Cash flows: Other	Non-cash movements	Closing debt
	£m	£m	£m	£m	£m
30 September 2024					
Asset backed loan notes	**28.0**	**-**	**(28.3)**	**0.3**	**-**
Bank borrowings	**-**	**-**	**-**	**-**	**-**
Corporate bonds	**145.8**	**-**	**-**	**4.1**	**149.9**
Retail bonds	**112.4**	**-**	**(112.5)**	**0.1**	**-**
Long-term central bank borrowings	**2,750.0**	**-**	**(2,000.0)**	**-**	**750.0**
Short-term central bank borrowings	**-**	**-**	**5.0**	**-**	**5.0**
Sale and repurchase agreements	**50.0**	**-**	**50.0**	**-**	**100.0**
Lease liabilities	**8.9**	**-**	**(2.7)**	**1.7**	**7.9**
Bank overdrafts	**0.2**	**-**	**0.2**	**-**	**0.4**
Gross debt	**3,095.3**	**-**	**(2,088.3)**	**6.2**	**1,013.2**
Cash	**(2,994.3)**	**-**	**468.9**	**-**	**(2,525.4)**
Net debt/(funds)	**101.0**	**-**	**(1,619.4)**	**6.2**	**(1,512.2)**
30 September 2023					
Asset backed loan notes	409.3	-	(382.1)	0.8	28.0
Bank borrowings	586.0	-	(586.0)	-	-
Corporate bonds	149.2	-	-	(3.4)	145.8
Retail bonds	112.3	-	-	0.1	112.4
Long-term central bank borrowings	2,750.0	-	-	-	2,750.0
Short-term central bank borrowings	-	-	-	-	-
Sale and repurchase agreements	-	-	50.0	-	50.0
Lease liabilities	9.0	-	(2.4)	2.3	8.9
Bank overdrafts	0.4	-	(0.2)	-	0.2
Gross debt	4,016.2	-	(920.7)	(0.2)	3,095.3
Cash	(1,930.9)	-	(1,063.6)	-	(2,994.3)
Net debt	2,085.3	-	(1,984.1)	(0.2)	101.0

Non-cash movements shown above represent:

- EIR adjustments relating to the spreading of initial costs of the facilities concerned
- Inception of new lease assets under IFRS 16
- Hedging fair value adjustments on the corporate bond (note 26)

(b) The Company

	Opening debt	Cash flows: Debt issued	Cash flows: Other	Non-cash movements	Closing debt
	£m	£m	£m	£m	£m
30 September 2024					
Corporate bonds	**149.4**	**-**	**-**	**0.2**	**149.6**
Retail bonds	**112.4**	**-**	**(112.5)**	**0.1**	**-**
Lease liabilities	**13.7**	**-**	**(1.3)**	**-**	**12.4**
Gross debt	**275.5**	**-**	**(113.8)**	**0.3**	**162.0**
Cash	**(27.6)**	**-**	**9.4**	**-**	**(18.2)**
Net debt	**247.9**	**-**	**(104.4)**	**0.3**	**143.8**
30 September 2023					
Corporate bonds	149.2	-	-	0.2	149.4
Retail bonds	112.3	-	-	0.1	112.4
Lease liabilities	15.0	-	(1.3)	-	13.7
Gross debt	276.5	-	(1.3)	0.3	275.5
Cash	(19.7)	-	(7.9)	-	(27.6)
Net debt	256.8	-	(9.2)	0.3	247.9

Non-cash changes shown above represent EIR adjustments relating to the spreading of initial costs of the bonds.

53. Unconsolidated structured entities

Following the Group's disposal of its residual interest in the Paragon Mortgages (No. 12) PLC securitisation in June 2019, it ceased to consolidate the assets and liabilities of the entity. The external securitisation borrowings remain in place with their terms unchanged and the Group continues to act as administrator, for which it charges a fee. It has no other exposure to the profitability of the deal, no exposure to credit risk, other than on the recoverability of its quarterly fee, and no obligation to make further contribution to the entity.

Fee income from servicing arrangements of £0.4m is included in third party servicing fees (note 7) (2023: £1.3m) and £0.1m is included in other debtors in respect of unpaid fees at the year end (2023: £0.5m). Outstanding collection monies due to the structured entity of £1.1m are included in other creditors at 30 September 2024 (2023: £0.1m).

54. Leasing arrangements

(a) As Lessor

The Group, through its motor finance and asset finance businesses, leases assets under both finance and operating leases. In respect of certain of these assets, the Group also provides maintenance services to the lessee.

It also leases green motor vehicles to its employees under a salary sacrifice scheme.

Disclosures in respect of these balances are set out in these financial statements as follows

Disclosure	**Note**
Investment in finance leases	19
Finance income on net investment in finance leases	4
Assets leased under operating leases	29
Operating lease income	6

The undiscounted future minimum lease payments receivable by the Group under operating lease arrangements may be analysed as follows:

	2024	2023
	£m	£m
Amounts falling due:		
Within one year	**10.2**	14.5
Within one to two years	**9.0**	9.3
Within two to three years	**6.3**	5.8
Within three to four years	**4.5**	3.5
Within four to five years	**2.9**	1.6
After more than five years	**2.6**	0.3
	35.5	35.0

(b) As Lessee

The Group's use of leases as a lessee relates to the rental of office buildings and company cars, together with the procurement of vehicles for leasing to employees under its green car scheme. Under IFRS 16 these have been accounted for as right of use assets and corresponding lease liabilities.

The average term of the current building leases from inception or acquisition is 7 years (2023: 8 years) with rents subject to review every five years, while the average term of the vehicle leases is 4 years (2023: 3 years).

The Company's use of leases as lessee is limited to the rental of an office building from a subsidiary entity. The lease term from inception is 15 years.

Disclosures relating to these leases are set out in these financial statements as follows.

Disclosure	**Note**
Depreciation on right of use assets	29
Interest expense on lease liabilities	5
Expense relating to short-term leases	8
Additions to right of use assets	29
Carrying amount of right of use assets	29
Maturity analysis of lease liabilities	64

Salary sacrifice amounts of £0.3m in respect of the green car scheme (2023: £0.1m) are included within operating lease income (note 6). There was no other subleasing of right of use assets and the total cash flows relating to leasing as a lessee were £3.0m (2023: £2.3m).

55. Related party transactions

(a) The Group

During the year, certain directors of the Group were beneficially interested in savings deposits made with Paragon Bank, on the same terms as were available to members of the public. Deposits of £850,000 were outstanding at the year end (2023: £720,000), and the maximum amounts outstanding during the year totalled £939,000 (2023: £771,000).

The Paragon Pension Plan (the 'Plan') is a related party of the Group. Transactions with the Plan are described in note 60.

The Group had no other transactions with related parties other than the key management compensation disclosed in note 58.

(b) The Company

During the year, the parent company entered into transactions with its subsidiaries, which are related parties. Management services were provided to the Company by one of its subsidiaries and the Company granted awards to employees of subsidiary undertakings under the share based payment arrangements described in note 59.

Details of the Company's investments in subsidiaries and the income derived from them are shown in notes 32 and 72.

Outstanding current account balances with subsidiaries are shown in notes 27 and 40.

During the year the Company incurred interest costs of £1.7m in respect of borrowings from its subsidiaries (2023: £1.5m).

The Company leased an office building from a subsidiary entity (note 54(b)). Finance charges recognised in respect of this lease were £0.3m (2023: £0.4m).

56. Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions as defined by EU Regulation No. 575/2013 (the capital requirements regulation). The objective of the country-by-country reporting requirements is to provide increased transparency regarding the source of the financial institution's income and the locations of its operations.

Paragon Banking Group PLC is a UK registered entity. Details of its subsidiaries are given in note 72 and the activities of the Group are described in Section A2.

The activities of the Group, described as required by the Regulations for the year ended 30 September 2024 were:

	United Kingdom £m
Year ended 30 September 2024	
Total operating income	**496.4**
Profit before tax	**253.8**
Corporation tax paid	**70.3**
Public subsidies received	**-**
Average number of full time equivalent employees	**1,356**

	United Kingdom £m
Year ended 30 September 2023	
Total operating income	466.0
Profit before tax	199.9
Corporation tax paid	75.1
Public subsidies received	-
Average number of full time equivalent employees	1,435

The Group's participation in Bank of England funding schemes is set out in note 38.

D2.2 Notes to the Accounts – Employment costs

For the year ended 30 September 2024

The notes set out below give information on the Group's employment costs, including the disclosures on share based payments and pension schemes required by accounting standards.

57. Employees

The average number of persons (including directors) employed by the Group during the year was 1,444 (2023: 1,527). The number of employees at the end of the year was 1,411 (2023: 1,522).

Costs incurred during the year in respect of these employees were:

	2024	**2024**	2023	2023
	£m	**£m**	£m	£m
Share based remuneration	**9.2**		9.6	
Other wages and salaries	**86.5**		84.6	
Total wages and salaries		**95.7**		94.2
National Insurance on share based remuneration	**3.4**		1.9	
Other social security costs	**10.5**		10.2	
Total social security costs		**13.9**		12.1
Defined benefit pension cost	**0.4**		0.5	
Other pension costs	**4.8**		4.7	
Total pension costs		**5.2**		5.2
Total employment costs		**114.8**		111.5
Of which				
Included in operating expenses (note 8)		**111.1**		108.3
Included in maintenance costs (note 6)		**3.7**		3.2
		114.8		111.5

Details of the pension schemes operated by the Group are given in note 60.

The Company has no employees. Details of the directors' remuneration are given in note 58.

58. Key management remuneration

Key management

The key management personnel of the Group and the Company, as defined by IAS 24 – 'Related Party Transactions', are considered by the Group to be the members of its Executive Committees and the members of the Board of Directors of the Company. The details of key management remuneration required by IAS 24 are set out below. For persons joining or leaving the executive committees in the year, all remuneration for the twelve months is shown.

	2024	**2024**	2023	2023
	£m	**£m**	£m	£m
Salaries and fees	**5.9**		5.3	
Cash amount of bonus	**3.6**		3.3	
Social security costs	**1.3**		1.2	
Short-term employee benefits		**10.8**		9.8
Post-employment benefits		**0.5**		0.5
IFRS 2 cost in respect of key management	**4.6**		4.3	
National Insurance thereon	**0.6**		1.0	
Share based payment		**5.3**		5.3
		16.6		15.6

Post-employment benefits shown above include pension allowances, contributions to defined contribution pension schemes or costs of accrual under the Group's defined benefit pension plan.

Social security costs paid in respect of key management are required to be included in this note by IAS 24, but do not fall within the scope of the disclosures in the Annual Report on Remuneration.

Costs in respect of share awards shown in the Annual Report on Remuneration are determined on a different basis to the IFRS 2 charge shown above.

Directors

The information in respect of the remuneration of the directors of the Company required to be disclosed in the notes to the Company's accounts by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as applicable to quoted companies, is set out below.

	2024	2023
	£m	£m
Aggregate amount of remuneration	**4.0**	3.7
Pension allowances	**0.1**	0.1
Gains on exercise of share options	**2.3**	0.7

In the table above, remuneration includes the cash amount of bonuses and the value of benefits in kind. It excludes any amounts receivable under share-based payment arrangements. Where a monetary amount of salary is paid in shares based on the market price at the payment date, this is included.

No director accrued benefits under either a defined benefit or defined contribution pension scheme in the year, nor did any director receive benefits under long-term incentive schemes, other than in the form of share awards.

Further information about the remuneration of individual directors is provided in the Annual Report on Remuneration in Section B7.2.2.

59. Share based remuneration

During the year, the Group had various share based payment arrangements with employees. They are accounted for by the Group and the Company as shown below.

The effect of the share based payment arrangements on the Group's profit is shown in note 57.

Further details of share based payment arrangements are given in the Annual Report on Remuneration in Section B7.2.2.

A summary of the number of share awards outstanding under each scheme at 30 September 2024 and at 30 September 2023 is set out below.

		Number	Number
		2024	2023
(a)	Sharesave Plan	**2,578,757**	3,077,077
(b)	Performance Share Plan	**5,939,690**	5,365,646
(c)	Company Share Option Plan	**32,940**	56,591
(d)	Deferred Bonus Plan	**493,208**	1,123,936
(e)	Restricted Stock Units	**382,483**	412,676
		9,427,078	10,035,926

Following the year end, the Remuneration Committee agreed the amounts of variable remuneration in respect of the year to be satisfied in the form of share based awards. These awards will be granted, following the approval of these accounts, based on the amounts approved and market pricing data at the date of grant.

(a) Sharesave plan

The Group operates an All Employee Share Option ('Sharesave') plan. Grants under this scheme vest, in the normal course, after the completion of the appropriate service period and subject to a savings requirement.

A reconciliation of movements in the number and weighted average exercise price of Sharesave options over £1 ordinary shares during the year ended 30 September 2024 and the year ended 30 September 2023 is shown below.

	2024	**2024**	2023	2023
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		p		p
Options outstanding				
At 1 October 2023	**3,077,077**	**365.76**	3,613,777	318.46
Granted in the year	**370,565**	**603.20**	1,235,757	400.40
Exercised or surrendered in the year	**(653,069)**	**320.99**	(1,579,263)	285.67
Lapsed during the year	**(215,816)**	**392.62**	(193,194)	357.44
At 30 September 2024	**2,578,757**	**408.97**	3,077,077	365.76
Options exercisable	**69,931**	**409.80**	439,546	279.43

The weighted average remaining contractual life of options outstanding at 30 September 2024 was 29.1 months (2023: 32.8 months). The weighted average market price at exercise for share options exercised in the year was 663.87p (2023: 515.86p).

Options are outstanding under the Sharesave plans to purchase ordinary shares as follows:

Grant date	Period exercisable	Exercise price	Number 2024	Number 2023
31/07/2018	01/09/2023 to 01/03/2024	408.80p	**-**	2,933
30/07/2019	01/09/2024 to 01/03/2025	360.16p	**832**	4,577
29/07/2020	01/09/2023 to 01/03/2024	278.56p	**6,461**	436,613
29/07/2020	01/09/2025 to 01/03/2026	278.56p	**400,804**	449,263
28/07/2021	01/09/2024 to 01/03/2025	424.00p	**62,638**	257,591
28/07/2021	01/09/2026 to 01/03/2027	424.00p	**48,671**	54,118
27/07/2022	01/09/2025 to 01/03/2026	391.20p	**485,510**	528,429
27/07/2022	01/09/2027 to 01/03/2028	391.20p	**93,388**	108,722
15/09/2023	01/10/2026 to 01/04/2027	400.40p	**925,076**	1,022,746
15/09/2023	01/10/2028 to 01/04/2029	400.40p	**188,287**	212,085
31/07/2024	01/09/2027 to 01/03/2028	603.20p	**306,609**	-
31/07/2024	01/09/2029 to 01/03/2030	603.20p	**60,481**	-
			2,578,757	3,077,077

An option holder has the legal right to a payment holiday of up to twelve months without forfeiting their rights. In such cases the exercise period would be deferred for an equivalent period of time and therefore options might be exercised later than the date shown above.

In the event of the death or redundancy of the employee, options may be exercised early, and the exercise period may also start or end later than stated above (options may be exercised up to twelve months after the holder's decease). Awards lapse on cessation of employment, other than in 'good leaver' circumstances.

The fair value of options granted is determined using a trinomial model. Details of the awards made in the year ended 30 September 2024 and the year ended 30 September 2023, are shown below.

Grant date	31/07/24	31/07/24	15/09/23	15/09/23
Number of awards granted	**309,037**	**61,528**	1,203,672	212,085
Market price at date of grant	**804.0p**	**804.0p**	506.5p	506.5p
Contractual life (years)	**3.5**	**5.5**	3.5	5.5
Fair value per share at date of grant (£)	**1.88**	**1.95**	1.10	1.09
Inputs to valuation model				
Expected volatility	**29.02%**	**35.97%**	31.02%	35.67%
Expected life at grant date (years)	**3.43**	**5.41**	3.43	5.42
Risk-free interest rate	**3.78%**	**3.71%**	4.64%	4.39%
Expected annual dividend yield	**4.93%**	**4.93%**	5.96%	5.96%
Expected annual departures	**5.00%**	**5.00%**	5.00%	5.00%

The expected volatility of the share price used in determining the fair value for the three-year schemes is based on the annualised standard deviation of daily changes in price over the three years preceding the grant date. The five-year schemes use share price data for the preceding five years.

(b) Paragon Performance Share Plan ('PSP')

PSP awards are made annually to executive directors and other senior employees as part of their variable remuneration. The grantees, and the values of their grants, are approved by the Remuneration Committee.

These awards are the principal means of delivering deferred variable remuneration to executive directors and Material Risk Takers ('MRTs') in accordance with regulatory remuneration requirements, although these are not the only employees to receive such awards.

Awards under this plan comprise a right to acquire ordinary shares in the Company for nil or nominal payment and are subject to performance criteria measured over a three year period beginning with the financial year including the date of grant (the 'test period').

Awards vest on the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied. For employees, other than the executive directors and other employees identified as MRTs for regulatory purposes, awards may be exercised from the vesting date to the day before the tenth anniversary of the grant date.

Executive directors' awards made in 2020 and 2021 are exercisable from the time of the Group's fifth results announcement after the date of the grant to the day before the tenth anniversary of the grant date.

Vested awards made to the executive directors and other MRTs in December 2022 and December 2023 become exercisable in annual instalments between the end of the test period and the seventh anniversary of the grant date. The maximum deferral period is based on the regulatory classification of the individual MRT. The latest possible exercise date is the day before the tenth anniversary of the grant date.

Where performance conditions are not met in full, awards lapse at the point at which the determination is made. Awards will also lapse on cessation of employment during the test period, other than in 'good leaver' circumstances. Malus and clawback provisions apply to awards granted under the PSP as detailed in the Directors' Remuneration Policy.

The conditional entitlements outstanding under this scheme at 30 September 2024 and 30 September 2023 were:

Grant date	Period exercisable	Number 2024	Number 2023
10/12/2013	10/12/2016 to 09/12/2023 †	**-**	2,132
18/12/2014	18/12/2017 to 17/12/2024 †	**1,465**	5,005
22/12/2015	22/12/2018 to 21/12/2025 †	**1,899**	10,473
01/12/2016	01/12/2019 to 30/11/2026 †	**26,406**	33,493
08/12/2017	03/12/2020 to 07/12/2027 †	**15,664**	29,675
14/12/2018	14/12/2021 to 13/12/2028 †	**33,883**	61,952
06/07/2020	06/12/2022 to 05/07/2030 †	**47,784**	149,151
06/07/2020	07/12/2024* to 05/07/2030 †	**474,210**	474,210
11/12/2020	06/12/2023 to 10/12/2030 δ	**85,512**	1,074,596
11/12/2020	07/12/2025* to 10/12/2030 δ	**371,859**	385,707
15/12/2021	07/12/2024* to 14/12/2031 λ	**1,030,106**	1,034,343
15/12/2021	07/12/2026* to 14/12/2031 λ	**339,936**	339,936
16/12/2022	07/12/2025* to 15/12/2032 ψ	**927,038**	932,315
16/12/2022	07/12/2026* to 15/12/2032 ψ	**259,233**	259,233
16/12/2022	07/12/2027* to 15/12/2032 ψ	**268,683**	268,683
16/12/2022	07/12/2028* to 15/12/2032 ψ	**148,229**	148,229
16/12/2022	07/12/2029* to 15/12/2032 ψ	**156,513**	156,513
15/12/2023	07/12/2026* to 14/12/2033 ϕ	**897,767**	-
15/12/2023	07/12/2027* to 14/12/2033 ϕ	**271,818**	-
15/12/2023	07/12/2028* to 14/12/2033 ϕ	**277,361**	-
15/12/2023	07/12/2029* to 14/12/2033 ϕ	**147,294**	-
15/12/2023	07/12/2030* to 14/12/2033 ϕ	**157,030**	-
		5,939,690	5,365,646

* Estimated date.

† These awards, which were conditional on the achievement of performance-based criteria, vested before the start of the financial year. Any reduction in entitlements resulting from the application of those criteria is reflected in the numbers above.

δ These awards were subject to performance criteria, assessed over a period of three financial years, starting with the year of grant.

- 25% to a Total Shareholder Return ('TSR') test based on a ranking of the Company's TSR against those of a comparator group of UK listed financial services companies, determined at the date of grant. This tranche vests in full for upper quartile performance, 25% vests for median performance and vesting between those points is determined on a straight line basis
- 25% to an EPS test. This tranche vests in full if basic EPS for the third year of the test period is at least 66.0p, 25% vesting if EPS in this year is 58.0p and vesting between those points on a straight line basis
- 25% to a risk test. The risk condition comprises two components. 50% of the risk element is based on an assessment by the CRO of the six key measures of the Group's risk appetite: regulatory breaches; customer service performance; conduct; operational risk incidents; capital and liquidity; and credit losses. The remaining 50% is based on a strategic risk assessment reflecting the management of risk as it impacts on the delivery of the Group's medium term strategy. Following the Remuneration Committee's assessment, the trance will vest between 0% and 100%
- 12.5% of the grant is determined based on a customer service condition. This condition is based on the performance of the Group against its most significant customer service metrics including insight feedback on key product lines and complaint levels. The Remuneration Committee will determine the extent to which the condition has been met between 0% and 100%. 50% of this tranche will vest for on-target performance, below a 25% threshold no vesting will occur
- 12.5% of the grant is determined based on a people test. The people test is based on the performance of the Group against its most significant employment metrics including employee engagement, voluntary attrition and gender diversity levels. The Remuneration Committee will determine the extent to which the condition has been met between 0% and 100%. 50% of this tranche will vest for on-target performance, below a 25% threshold no vesting will occur

An 'underpin' condition also operates, such that the Remuneration Committee has to be satisfied with the Group's underlying financial performance over the performance period. An individual performance condition relating to the grantee's performance in the final financial year of the test period also applies.

λ These awards are subject to performance criteria, similar to those described at δ above except that:

- Under the EPS condition full vesting occurs if EPS for the third year of the test period is at least 72.0p, 25% vesting if EPS in this year is 63.0p and vesting between those points on a straight line basis
- Under the risk condition, the key measures component covers: regulatory breaches; conduct; operational incidents; capital and liquidity; and credit losses

ψ These awards are subject to performance criteria, similar to those described at λ above except that:

- Under the EPS condition full vesting occurs if EPS for the third year of the test period is at least 88.1p, 25% vesting if EPS in this year is 74.4p and vesting between those points on a straight line basis
- The risk condition relates to 20% of the grant, the customer service condition applies to 10% of the grant and the people condition relates to 10% of the grant
- The 25% and 50% vesting thresholds no longer apply to the customer service and people conditions
- 10% of the grant relates to a climate condition. The climate condition is based on the performance of the Group against its most significant climate-related targets, including the development of systems to quantify and manage its climate-related impacts

ϕ These awards are subject to performance criteria, similar to those described at ψ above except that:

- Under the EPS condition, full vesting occurs if EPS for the third year of the test period is at least 100.0p, 25% vesting if EPS in that year is 80.0p and vesting between those points is on a straight line basis.
- The diversity element of the people condition is based on wider diversity of senior management rather than simply gender diversity
- The climate condition is based on: operational footprint emission reduction; financed emissions decarbonisation assessments; sustainable products; and education and engagement

On exercise, holders of awards granted between February 2013 and December 2021 receive a payment equivalent to the dividends accruing on the vested shares during the vesting period. No such payment is made in respect of awards granted at other dates.

The fair value of awards granted under the PSP is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Fair values are calculated separately for grant elements which became exercisable at different dates to allow for the impact of dividends. The principal inputs to this model for grants made in the year ended 30 September 2024 and the year ended 30 September 2023 are shown below:

Grant date	**15/12/23**	16/12/22
Market price at date of grant	**627.5p**	541.5p
Contractual life (years)	**10.0**	10.0
Expected volatility	**30.01%**	40.54%
Risk-free interest rate	**3.85%**	3.27%
Expected annual dividend yield	**5.96%**	5.28%

For all the above grants no departures are expected, and grantees are expected to exercise awards at the earliest opportunity. The expected volatility is based on the annualised standard deviation of daily changes in price over the three years preceding the grant date. For the purposes of the valuation, non-market conditions are assumed to be achieved 100% although this is unlikely to occur in practice.

The number of awards granted and their fair values for IFRS 2 purposes are set out below

Grant date	**15/12/23**		**16/12/22**	
Time to exercise (Years)	**Number of awards**	**IFRS 2 fair value**	Number of awards	IFRS 2 fair value
3	**897,767**	**403.29p**	926,721	423.32p
4	**271,818**	**388.63p**	259,233	404.23p
5	**277,361**	**372.89p**	268,683	385.55p
6	**147,294**	**356.71p**	148,229	367.43p
7	**157,030**	**340.46p**	156,513	349.93p
	1,751,270		1,759,379	

(c) Company Share Option Plan ('CSOP')

Before its amendment at the 2023 AGM, the PSP included a tax advantaged element under which CSOP options could be granted. The CSOPs may be exercised alongside their accompanying PSPs based upon the exercise price that was set at the grant date. No new CSOP awards were made in the years ended 30 September 2024 or 30 September 2023, and the current PSP rules contain no provision to make CSOP grants.

A reconciliation of movements in the number and weighted average exercise price of CSOP options over £1 ordinary shares during the year ended 30 September 2024 and the year ended 30 September 2023 is shown below.

	2024	**2024**	2023	2023
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		p		p
Options outstanding				
At 1 October 2023	**56,591**	**402.29**	87,716	406.31
Exercised or surrendered in the year	**(23,651)**	**419.16**	(28,715)	408.25
Lapsed during the year	**-**	**-**	(2,410)	477.76
At 30 September 2024	**32,940**	**390.17**	56,591	402.29
Options exercisable	**32,940**	**390.17**	56,591	402.29

The weighted average remaining contractual life of options outstanding at 30 September 2024 was 36.5 months (2023: 49.9 months). The weighted average market price at exercise for share options exercised in the year was 699.67p.

The entitlements outstanding under this scheme at 30 September 2024 and 30 September 2023 were:

Grant date	Period exercisable	Exercise price	Number 2024	Number 2023
01/12/2016	01/12/2019 to 30/11/2026	361.88p	**16,317**	21,732
08/12/2017	08/12/2020 to 07/12/2027	477.76p	**4,455**	13,409
14/12/2018	14/12/2021 to 13/12/2028	396.04p	**12,168**	21,450
			32,940	56,591

These awards, which were conditional on the achievement of performance-based criteria, vested before the start of the financial year. Any reduction in entitlements resulting from the application of those criteria is reflected in the numbers above.

(d) Deferred Bonus awards

During the current financial year this plan has been used to defer annual bonus awards for executive directors and certain other MRTs to meet deferral levels required by regulatory remuneration rules. The plan has also been used, from time-to-time, to facilitate other long-term incentive arrangements.

Before the financial year ended 30 September 2023 such plans were generally used for the deferral in shares of annual bonus awards made to executive directors and certain other senior managers ('executive awards'). Additionally in 2020 a one-off award was made on an all-employee basis.

Awards under these plans comprise a right to acquire ordinary shares in the Company for nil or nominal payment. The conditional entitlements outstanding under these plans at 30 September 2024 and 30 September 2023 were:

Grant date	Period exercisable	Number 2024	Number 2023
18/12/2014	18/12/2017 to 17/12/2024	-	52,888
22/12/2015	22/12/2018 to 21/12/2025	-	60,042
11/12/2020	11/12/2023 to 10/12/2030	**4,223**	382,334
11/12/2020 †	11/12/2023 to 01/06/2024	-	206,135
15/12/2021	15/12/2024 to 10/12/2031	**244,953**	244,953
16/12/2022	06/12/2023 to 15/12/2032	-	5,011
16/12/2022	07/12/2024 * to 15/12/2032	**104,089**	104,089
16/12/2022	07/12/2025 * to 15/12/2032	**14,742**	14,742
16/12/2022	07/12/2026 * to 15/12/2032	**15,565**	15,565
16/12/2022	07/12/2027 * to 15/12/2032	**16,018**	16,018
16/12/2022	07/12/2028 * to 15/12/2032	**10,775**	10,775
16/12/2022	07/12/2029 * to 15/12/2032	**11,384**	11,384
15/12/2023	07/12/2024 * to 14/12/2033	**2,712**	-
15/12/2023	07/12/2025 * to 14/12/2033	**5,821**	-
15/12/2023	07/12/2026 * to 14/12/2033	**16,425**	-
15/12/2023	07/12/2027 * to 14/12/2033	**17,449**	-
15/12/2023	07/12/2028 * to 14/12/2033	**11,139**	-
15/12/2023	07/12/2029 * to 14/12/2033	**8,667**	-
15/12/2023	07/12/2030 * to 14/12/2033	**9,246**	-
		493,208	1,123,936

* Estimated date

† All-employee award

Awards made to executive directors and other MRTs in December 2022 and December 2023 become exercisable in annual instalments after the announcement of each year's results from the third anniversary of the grant to the seventh anniversary. The maximum deferral for each employee depends on the regulatory classification of the individual MRT.

Exercise arrangements for grants made to other employees in December 2022 and December 2023 are individually structured at the discretion of the Remuneration Committee at the point of grant.

All of these awards will lapse if the grantee ceases employment with the Group before the grant becomes exercisable, other than in 'good leaver' circumstances.

The Deferred Bonus shares granted in 2021 and earlier years under the executive awards can be exercised from the third anniversary of the award date (or other vesting date determined by the Remuneration Committee) until the day before the tenth anniversary of the date of grant.

The all-employee awards vested on the third anniversary of the grant date and the shares were automatically transferred to the participants as soon as reasonably practicable thereafter.

In the event of death or redundancy the all-employee awards could vest early. Awards lapsed on the cessation of employment, other than in 'good leaver' circumstances. Except in these regards the all-employee awards operated in the same way as the executive awards.

The Deferred Bonus shares granted between December 2016 and December 2021 accrue dividends over the vesting period, unlike earlier grants which accrued dividends until the point of exercise. Awards granted in December 2022 and subsequently do not include the right to payment in lieu of dividend. The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model and allows for these dividend arrangements.

Details of the inputs to the valuation model for awards made in the year ended 30 September 2024 and the year ended 30 September 2023 are shown below.

Grant date	**15/12/23**	**16/12/22**
Market price at date of grant	**627.5p**	**541.5p**
Expected annual dividend yield	**5.96%**	**5.28%**

No departures are expected for grantees under this plan. Grantees are assumed to exercise their awards at the earliest possible opportunity.

The number of awards granted and their fair values for IFRS 2 purposes are set out below

Grant date	**15/12/23**		**16/12/22**	
Time to exercise (Years)	**Number of awards**	**IFRS 2 fair value**	Number of awards	IFRS 2 fair value
1	**5,643**	**591.9p**	5,011	513.6p
2	**9,080**	**557.0p**	104,089	487.2p
3	**16,771**	**524.8p**	14,742	462.2p
4	**10,913**	**494.4p**	15,565	438.4p
5	**11,139**	**465.8p**	16,018	415.9p
6	**8,667**	**438.8p**	10,775	394.5p
7	**9,246**	**413.5p**	11,384	374.2p
	71,459		177,584	

(e) Restricted Stock Units (RSU)

The Company permitted certain employees to elect to receive RSU awards instead of PSP awards in respect of financial years between 2016 and 2022. The use of such awards is no longer part of the Group's remuneration policy and hence no RSU awards have been made in recent years.

In addition, in the financial year ended 30 September 2022, a one-off RSU grant with a four-year vesting period was made to certain employees designated as MRTs.

For RSU awards to vest, the grantee's personal performance must be satisfactory during the financial year preceding the vesting date. In addition, a risk based performance condition, assessed against the Group's risk management metrics must also be met. The level to which this condition is met will be determined by the Remuneration Committee and vesting levels scaled back as appropriate.

The conditional entitlements outstanding under this scheme at 30 September 2024 and 30 September 2023 were:

Grant date	**Period exercisable**	**Number 2024**	Number 2023
11/12/2020	06/12/2023 to 10/12/2030	-	30,193
15/12/2021	07/12/2024* to 15/12/2031	**26,603**	26,603
15/12/2021	07/12/2025* to 15/12/2031	**355,880**	355,880
		382,483	412,676

* Estimated date

60. Retirement benefit obligations

(a) Defined benefit plan – description

The Group operates a funded defined benefit pension scheme in the UK, the Paragon Pension Plan (the 'Plan'). The Plan assets are held in a separate fund, administered by a corporate trustee, to meet long-term pension liabilities to past and present employees. The Trustee of the Plan is required by law to act in the best interests of the Plan's beneficiaries and is responsible for the investment policy adopted in respect of the Plan's assets. The appointment of directors to the Trustee is determined by the Plan's trust documentation. The Group has a policy that one third of all directors of the Trustee should be nominated by active and pensioner members of the Plan.

Employee contributions and benefits

The scheme was closed to new entrants in February 2002. Employees who are members of the Plan are entitled to receive a pension of 1/60 of their final basic annual salary per year of service up to 30 June 2021. After that date further accrual is at a rate of 1/70 or 1/75 of capped final salary depending on the level of contributions. After 1 July 2021 employee contributions were either 5% or 8% of capped salary. Before that date all active members contributed at a rate of 5% of salary.

Benefits accrued before 1 July 2021 may be accessed from the age of 60 without any reduction for early payment. Benefits accruing after 1 July 2021 may be accessed without penalty from the age of 65.

Dependants of Plan members are eligible for a dependant's pension and the payment of a lump sum in the event of death in service.

Actuarial risks

The principal actuarial risks to which the Plan is exposed are:

- **Investment risk** – The present value of the defined benefit liabilities is calculated using a discount rate set by reference to high quality corporate bond yields. If plan assets underperform corporate bonds, this will reduce the surplus. The strategic allocation of assets under the Plan has been derisked and now only around 20% is invested in equity assets and diversified growth funds. In consultation with the Company, the Trustee keeps the allocation of the Plan's investments under review to manage this risk on a long-term basis
- **Interest risk** – A fall in corporate bond yields would reduce the discount rate used in valuing the Plan liabilities and increase the value of the Plan liabilities. The Plan assets would also be expected to increase, to the extent that bond assets are held, but this would not be expected to fully match the increase in liabilities, given the weighting towards equity assets and diversified growth funds noted above
- **Inflation risk** – Pensions in payment are increased annually in line with the RPI or the Consumer Price Index ('CPI') for Guaranteed Minimum Pensions built up since 1988. Pensions built up since 5 April 2006 are capped at 2.5% and pensions built up before 6 April 2006 are capped at 5%. For employees who have left the Company but have deferred pensions, these also revalue over the period to retirement, predominantly in line with RPI. Therefore, an increase in inflation would also increase the value of the pension liabilities. The Plan assets would also be expected to increase, to the extent that they are linked to inflation, but this may not fully match the increase in liabilities
- **Longevity risk** – The value of the Plan surplus is calculated by reference to the best estimate of the mortality rate among Plan members both during and after employment. An increase in the life expectancy of the members would reduce the surplus in the Plan
- **Salary risk** – The valuation of the Plan assumes a level of future salary increases based on the expected rate of inflation. Should the salaries of Plan members increase at a higher rate, then the surplus will be lower. For service from 1 July 2021, a 2.5% annual cap on individual pensionable salary increases applies, mitigating this risk

The risks relating to death in service payments are insured with an external insurance company.

As a result of the Plan having been closed to new entrants since February 2002, the service cost as a percentage of pensionable salaries is expected to increase as the average age of active members rises over time. However, the membership is expected to reduce so that the service cost in monetary terms will gradually reduce. The changes referred to above will also reduce this cost going forward.

Actuarial valuation and recovery plan

The most recent full actuarial valuation of the Plan's liabilities, obtained by the Trustee, was carried out at 31 March 2022, by Aon Solutions UK Limited, the Plan's independent actuary. This showed that the value of the Plan's liabilities on a buy-out basis in accordance with Section 224 of the Pensions Act 2004, the level of assets which would be required to buy insurance policies for benefits earned to the valuation date, was £195.5m, with a shortfall against the assets of £44.2m (2019: £85.0m). The deficit on the Technical Provisions Basis, the basis agreed by the Trustee as being appropriate to meet member benefits, assuming the Plan continues as a going concern, was £5.1m (2019: £18.2m). Many of the demographic assumptions used within the Technical Provisions Basis are also used within the IAS 19 valuation.

Following the agreement of the 2022 actuarial valuation, the Trustee put in place a revised recovery plan. This recovery plan was designed to ensure that the statutory funding objective was met during the 2024 financial year, but included provision for the Group to make further additional payments after that point. The recovery plan continues to include a Pension Funding Partnership ('PFP') arrangement effectively granting the Plan a first charge over the Group's head office building as security for certain payments under the plan (note 29). However, payments under the PFP are paused when the Plan reaches a prescribed funding level, and this point was reached in April 2024. No amount is included in the Plan assets in respect of the building, which remains within the Group's Property, Plant and Equipment balance (note 29) but this arrangement provides the Plan with additional security in a stress event.

(b) Defined benefit plan – financial impact

For accounting purposes, the valuation at 31 March 2022 was updated to 30 September 2024 in accordance with the requirements of IAS 19 (revised) by Mercer, the Group's independent consulting actuary.

The major categories of assets in the Plan at 30 September 2024, 30 September 2023 and 30 September 2022 and their fair values were:

	2024	2023	2022
	£m	£m	£m
Cash and cash equivalents	**1.1**	0.6	0.7
Equity instruments	**21.2**	44.8	56.6
Debt instruments	**91.4**	56.6	47.4
Total fair value of Plan assets	**113.7**	102.0	104.7
Present value of Plan liabilities	**(91.5)**	(89.3)	(97.6)
Surplus in the Plan	**22.2**	12.7	7.1

The Group has recognised the surplus as an asset at the balance sheet date as it anticipates being able to access economic benefits at least as great as the carrying value. However, such assets are eliminated from capital for regulatory purposes (note 59).

At 30 September 2024 the Plan assets were invested in a diversified portfolio that consisted primarily of debt and equity investments. The majority of the equities held by the Plan are in developed markets. During the year the Trustee has revised its investment strategy, reducing the proportion of growth assets, including equities, held by the Plan.

The Plan has a benchmark allocation at 30 September 2024 of 54% of total assets to Liability Driven Investments ('LDI') to provide hedging against inflation and interest rate risk. This target was maintained at 42% for much of the period (2023: 28%). The hedging provided now represents some 85% of the Plan's risks (2023: 60%), with the increased hedging protecting the current surplus position. During the market turmoil encountered during September / October 2022 the assets of the Plan proved themselves to be robust in protecting the members' interests, with no requirement to either divest from LDI nor to reduce the hedge ratio in place at that time.

During October 2018, the High Court made a ruling in the Lloyds Banking Group Pension Scheme GMP ('Guaranteed Minimum Pension') equalisation case, which effectively directs defined benefit pension schemes to change their rules to equalise the benefits of male and female members for the effects of GMPs for employees who were, at one time, contracted out of state schemes. The Court did not specify a single method which schemes should employ and hence the impact of this on the Plan will not be certain until the Trustee has determined which method should be adopted and detailed calculations have been performed to evaluate the impact, as the impact on members will vary from person to person.

The estimated effect of this ruling was accounted for in the accounts of the Group for the year ended 30 September 2019 as a 'past service cost'. This estimate is based on one permissible method, method C2. During the year, the Trustee, with the consent of the Company, chose to adopt an alternative approach, method B. However, the accounting impact of this is likely to be minimal. Once detailed calculations are performed it is possible that the final impact may vary due to idiosyncratic impacts on individual members, or due to the development of a wider legal and accounting consensus on the proper interpretation of the courts' requirements as further cases are determined.

In June 2023, the High Court made a ruling in the case of Virgin Media, which related to the validity of changes made to a pension scheme where an actuarial certificate could not be produced. In July 2024, the Court of Appeal dismissed an appeal brought against aspects of this ruling, and the conclusions reached in this case may have consequences for other UK defined benefit plans, such as the Group's. The Group and the Trustee have identified a number of amendments made to the Plan which are within the scope of this ruling. Work is ongoing to confirm that the correct actuarial certificates are available in respect of each such amendment. However, at present, the directors of the Trustee have no reason to believe that any are not in place. The defined benefit liability has therefore been calculated on the basis that no additional liabilities arise as a result of the Virgin Media ruling.

The movement in the fair value of the Plan assets during the year was as follows:

	2024	2023
	£m	£m
At 1 October 2023	**102.0**	104.7
Interest on Plan assets	**5.7**	5.2
Cash flows		
Contributions by the Group	**2.8**	3.9
Contributions by Plan members	**0.2**	0.2
Benefits paid	**(3.1)**	(3.6)
Administration expenses paid	**(0.9)**	(0.6)
Remeasurement gain / (loss)		
Return on Plan assets (excluding amounts included in interest)	**7.0**	(7.8)
At 30 September 2024	**113.7**	102.0

The actual return on Plan assets in the year ended 30 September 2024 was a gain of £12.7m (2023: loss of £2.6m).

The movement in the present value of the Plan liabilities during the year was as follows

	2024	2023
	£m	£m
At 1 October 2023	**89.3**	97.6
Current service cost	**0.4**	0.5
Past service cost	**-**	-
Funding cost	**4.9**	4.8
Cash flows		
Contributions by Plan members	**0.2**	0.2
Benefits paid	**(3.1)**	(3.6)
Remeasurement loss / (gain)		
Arising from demographic assumptions	**(2.4)**	(0.9)
Arising from financial assumptions	**3.7**	(11.1)
Arising from experience adjustments	**(1.5)**	1.8
At 30 September 2024	**91.5**	89.3

The liabilities of the Plan are measured by discounting the best estimate of future cash flows to be paid out by the Plan using the Projected Unit method. This amount is reflected in the liability in the balance sheet. The Projected Unit method is an accrued benefits valuation method in which the Plan liabilities are calculated based on service up until the valuation date allowing for future salary growth until the date of retirement, withdrawal or death, as appropriate. The future service rate is then calculated as the contribution rate required to fund the service accruing over the next year again allowing for future salary growth.

Liabilities for benefits accruing for service up to 1 July 2021 are calculated separately from those accruing in respect of service after that date.

The major weighted average assumptions used by the actuary were (in nominal terms):

	2024	2023	2022
In determining net pension cost for the year			
Discount rate	**5.55%**	5.00%	2.00%
Rate of compensation increase:			
Pre 1 July 2021 accrual	**3.25%**	3.55%	3.40%
Post 1 July 2021 accrual	**2.50%**	2.50%	2.50%
Rate of price inflation	**3.25%**	3.55%	3.40%
Rate of increase of pensions	**3.00%**	3.25%	3.15%
In determining benefit obligations			
Discount rate	**5.10%**	5.55%	5.00%
Rate of compensation increase:			
Pre 1 July 2021 accrual	**3.05%**	3.25%	3.55%
Post 1 July 2021 accrual	**2.50%**	2.50%	2.50%
Rate of price inflation	**3.05%**	3.25%	3.55%
Rate of increase of pensions	**2.85%**	3.00%	3.25%
Further life expectancy at age 60			
Male member aged 60	**27**	27	27
Female member aged 60	**29**	29	29
Male member aged 40	**29**	29	29
Female member aged 40	**31**	31	31

In the 2024 valuation the base mortality table used was the standard S3PMA/S3PFA_M (All) Year of Birth table, with future improvements projected by the CMI 2022 projection model with a 1.5% per annum long-term improvement rate.

In the 2023 valuation the base mortality table used was the standard S3PMA/S3PFA_M (All) Year of Birth table, with future improvements projected by the CMI 2022 projection model with a 1.5% per annum long-term improvement rate.

In the 2022 valuation the base mortality table used was the standard S3PMA/S3PFA_M (All) Year of Birth table, with future improvements projected by the CMI 2021 projection model with a 1.5% per annum long-term improvement rate.

The amounts charged in the consolidated income statement in respect of the Plan are:

	Note	**2024**	2023
		£m	£m
Current service cost		**0.4**	0.5
Past service cost		**-**	-
Total service cost	*57*	**0.4**	0.5
Administration expenses		**0.9**	0.6
Included within operating expenses		**1.3**	1.1
Funding cost of Plan liabilities		**4.9**	4.8
Interest on Plan assets		**(5.7)**	(5.2)
Net interest (income)	*4*	**(0.8)**	(0.4)
Components of defined benefit costs recognised in profit or loss		**0.5**	0.7

The amounts recognised in the consolidated statement of comprehensive income in respect of the Plan are:

	2024	2023
	£m	£m
Return on Plan assets (excluding amounts included in interest)	**7.0**	(7.8)
Actuarial gains / (losses)		
Arising from demographic assumptions	**2.4**	0.9
Arising from financial assumptions	**(3.7)**	11.1
Arising from experience adjustments	**1.5**	(1.8)
Total actuarial gain	**7.2**	2.4
Tax thereon	**(1.8)**	(0.8)
Net actuarial gain	**5.4**	1.6

Of the remeasurement movements reflected above:

- The return on plan assets to 30 September 2024 reflects a recovery in the value of investment assets in the year, from the losses seen in 2023, as a result of a generally more benign global economic climate.
- The gain attributable to changed demographic assumptions in the current year reflects the adoption of revised commutation factors by the Trustee. The gain in the 2023 financial year related to the adoption of revised mortality tables indicating a marginal reduction in life expectancies.
- The change in financial assumptions in the year ended 30 September 2024 reflects principally a widening of the gap between the assumed discount and inflation rates as bond yields, which form the basis of the discount rate assumption, fell faster than gilt yields, which are used to predict inflation. The gain seen in the year ended 30 September 2023 resulted from the continuation of the upward trend in bond yields seen in the prior periods, which was not matched by the long-term inflation expectations implied by gilt rates.
- The experience adjustments in both years shown represent the impact of the difference between actual and forecast UK inflation in the year on expected benefits, which is more significant than in previous years due to the inflation levels recorded in these periods.

(c) Defined benefit plan – future cash flows

The sensitivity of the valuation of the defined benefit obligation to the principal assumptions disclosed above at 30 September 2024, calculating the obligation on the same basis as used in determining the IAS 19 value, is as follows:

Assumption	Increase in assumption	Impact on scheme liabilities	
		2024	2023
Discount rate	0.25% per annum	**(3.9)%**	(3.8)%
Rate of inflation*	0.25% per annum	**3.9%**	3.8%
Rate of salary growth	0.25% per annum	**0.8%**	0.9%
Rates of mortality	1 year of life expectancy	**3.1%**	2.5%

* maintaining a 0.0% assumption for real salary growth

The rate of growth for pensions in payment primarily relates to forecast inflation rates.

The sensitivity analysis presented above may not be representative of an actual future change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation, as some of the assumptions will be correlated. There has been no change in the method of preparing the analysis from that adopted in previous years, except that 25 basis point sensitivities have been presented rather than 10 basis points, in accordance with current actuarial good practice. Revised sensitivities for 2023 have been provided on the same basis. The impacts of equivalent decreases in assumptions are broadly equal and opposite to the effects of the increases shown above.

In conjunction with the Trustee, the Group has continued to conduct asset-liability reviews of the Plan. These studies are used to assist the Trustee and the Group to determine the optimal long-term asset allocation with regard to the structure of liabilities within the Plan. The results of the studies are used to assist the Trustee in managing the volatility in the underlying investment performance and risk of a significant increase in the scheme deficit by providing information used to determine the investment strategy of the Plan. There have been no changes in the processes by which the Plan manages its risks from previous periods.

Following a review of the Plan's investment strategy, the current target asset allocations for the year ending 30 September 2025 are 38% growth assets (primarily equities), and 62% matching assets (primarily bonds) which includes LDI balances, with the hedge ratio remaining at 85%.

Following the finalisation of the March 2022 valuation, the agreed rate of employer contribution reduced to 12.5% of capped pensionable salary from 15 March 2023, having been 25% since 1 July 2021. An additional contribution for deficit reduction of £1.9m payable over the nine-month period ending on 30 November 2023, and an additional contribution of £2.5m per annum, payable monthly from 1 December 2023 were also agreed. These include amounts payable under the PRP and replace the £2.5m per annum contribution for deficit reduction included in the previous funding plan. The additional contribution is reduced to a rate of £1.9m per annum if the funding level meets the target set by the PFP arrangement, which was reached in April 2024. The Group continues to make an additional £0.4m per annum contribution in respect of the Plan's running costs, payable monthly.

The present best estimate of the contributions to be made to the Plan by the Group in the year ending 30 September 2025 is £2.7m.

The average durations of the discounted benefit obligations in the Plan at the year end are shown in the table below:

	2024	2023
	Years	Years
Category of member		
Active members	**19**	18
Deferred pensioners	**18**	18
Current pensioners	**11**	11
All members	**16**	16

(d) Defined contribution arrangements

The Group sponsors a defined contribution (Worksave) pension scheme, open to all employees who are not members of the Plan. The Group completed the auto-enrolment process mandated by the UK Government in November 2013, using this scheme. Since the year ended 30 September 2020 the Group's contribution to the scheme for those employees making the maximum 6% contribution has been 10% of salary.

The Group also sponsors a number of other defined contribution pension plans relating to acquired entities and makes contributions to these schemes in respect of employees.

The assets of these schemes are not Group assets and are held separately from those of the Group, under the control of independent trustees. Contributions made by the Group to these schemes in the year ended 30 September 2024, which represent the total cost charged against income, were £4.8m (2023: £4.7m) (note 57).

D2.3 Notes to the Accounts – Capital and financial risk

For the year ended 30 September 2024

The notes below describe the processes and measurements which the Group and the Company use to manage their capital position and their exposure to financial risks including credit, liquidity and market risk. It should be noted that certain capital measures, which are presented to illustrate the Group's position, are not subject to audit. Where this is the case, the relevant disclosures are marked as such.

61. Capital management

The Group's objectives in managing capital are:

- To ensure that the Group has sufficient capital to meet its operational requirements and strategic objectives
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk
- To ensure that sufficient regulatory capital is available to meet any externally imposed requirements

The protection of the Group's capital base and its long-term viability are key strategic priorities.

The Group sets its target amount of capital in proportion to risk, availability and cost. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, having particular regard to the relative costs and availability of debt and equity finance at any given time. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as retail or corporate bonds, or sell assets to reduce debt.

The Group is subject to regulatory capital rules imposed by the PRA on a consolidated basis as a group containing an authorised bank. This is discussed further below.

(a) Regulatory capital

The Group is subject to supervision by the PRA on a consolidated basis, as a group containing an authorised bank. For regulatory purposes the Company is designated as a CRR consolidation entity, as defined by the PRA rulebook. As part of this supervision the regulator will issue a Total Capital Requirement ('TCR') setting the amount of regulatory capital relative to its Total Risk Exposure ('TRE') which the Group is required to hold at all times, in order to safeguard depositors from loss through the business cycle. This requirement is set in accordance with the international Basel 3 rules, issued by the Basel Committee on Banking Supervision ('BCBS'), which are implemented through the PRA Rulebook.

The Group's regulatory capital is monitored by the Board, its Risk and Compliance Committee and by the Executive Risk Committee ('ERC') and the Asset and Liability Committee, which ensure that appropriate action is taken to ensure compliance with the regulator's requirements. The future regulatory capital requirement is also considered as part of the Group's forecasting and strategic planning process.

The Group has elected to take advantage of the IFRS 9 transitional arrangements set out in Article 473a of the CRR, which allow the capital impact of expected credit losses to be phased in over a five-year period. The phase-in factors applying to transition adjustments will allow for a 95% add back to CET1 capital and Risk Weighted Assets ('RWA') in the financial year ended 30 September 2019, reducing to 85%, 70%, 50% and 25% for the financial years ending in 2020 to 2023, with full recognition of the impact on CET1 capital in the current financial year.

As part of the regulatory response to Covid, Article 473a was revised to extend the transitional arrangements for Stage 1 and Stage 2 impairment provisions created in the financial year ended 30 September 2020 and the financial year ended 30 September 2021, while maintaining the transitional arrangements for impairment provisions created before those years. In order to increase institutions lending capacity in the short term, the EU determined that these additional provisions should be phased into capital over the financial years ending 30 September 2022 to 30 September 2024, rather than recognising the reduction in capital immediately.

Where these reliefs are taken, firms are also required to disclose their capital positions calculated as if the reliefs were not available (the 'fully loaded' basis). From 1 October 2024 the reliefs will be fully phased out and the fully loaded and regulatory bases for the Group will be equal.

The tables below demonstrate that at 30 September 2024 the Group's total regulatory capital of £1,327.9m (2023: £1,338.9m) exceeded the amounts required by the regulator, including £724.1m (2023: £673.4m) in respect of its TCR, which is comprised of fixed and variable elements (amounts not subject to audit).

The total regulatory capital at 30 September 2024 on the fully loaded basis of £1,325.2m (2023: £1,325.4m) was in excess of the TCR of £723.8m (2023: £672.2m) on the same basis (amounts not subject to audit).

At 30 September 2024, the Group's TCR represented 8.7% of TRE (2023: 8.8%).

The CRR also requires firms to hold additional capital buffers, including a Capital Conservation Buffer ('CCoB') of 2.5% of TRE (at 30 September 2024) (2023: 2.5%) and a Counter-cyclical Capital Buffer ('CCyB'), currently 2.0% of TRE (2023: 2.0%). This is expected to be the long term rate of the CCyB in a standard risk environment. Firm specific buffers may also be required.

The Group's regulatory capital differs from its equity as certain adjustments are required by the PRA Rulebook. A reconciliation of the Group's equity to its regulatory capital determined in accordance with the PRA Rulebook at 30 September 2024 is set out below.

		Regulatory basis		Fully loaded basis	
	Note	**2024**	2023	**2024**	2023
		£m	£m	**£m**	£m
Total equity		**1,419.5**	1,410.6	**1,419.5**	1,410.6
Deductions					
Proposed final dividend	*48*	**(55.6)**	(56.7)	**(55.6)**	(56.7)
IFRS 9 transitional relief	*	**2.7**	13.5	**-**	-
Intangible assets	*30*	**(171.5)**	(168.2)	**(171.5)**	(168.2)
Pension surplus net of deferred tax	*60*	**(16.7)**	(9.6)	**(16.7)**	(9.6)
Prudent valuation adjustments	§	**(0.5)**	(0.6)	**(0.5)**	(0.6)
Insufficient coverage	ψ	**-**	(0.1)	**-**	(0.1)
Common Equity Tier 1 ('CET1') capital		**1,177.9**	1,188.9	**1,175.2**	1,175.4
Other Tier 1 capital		**-**	-	**-**	-
Total tier 1 capital		**1,177.9**	1,188.9	**1,175.2**	1,175.4
Corporate bond	*[37]*	**150.0**	150.0	**150.0**	150.0
Eligibility cap	Φ	**-**	-	**-**	-
Total tier 2 capital		**150.0**	150.0	**150.0**	150.0
Total regulatory capital ('TRC')		**1,327.9**	1,338.9	**1,325.2**	1,325.4

* Firms are permitted to phase in the impact of IFRS 9 transition as described above.

§ For capital purposes, assets and liabilities held at fair value, such as the Group's derivatives, are required to be valued on a more conservative basis than the market value basis set out in IFRS 13. This difference is represented by the prudent valuation adjustment above, calculated using the 'Simplified Approach' set out in the PRA Rulebook.

ψ Regulatory deduction where there is insufficient coverage for non-performing exposures required under Article 47(c) of the CRR. This remained in force in the UK, under the Brexit arrangements, but was removed by the PRA with effect from 14 November 2023.

Φ The PRA Rulebook restricts the amount of tier 2 capital which is eligible for regulatory purposes to 25% of TCR.

The TRE amount calculated under the PRA Rulebook framework against which this capital is held, which includes Risk Weighted Asset ('RWA') amounts for credit risk, and the proportion of these assets which that capital represents, are calculated as shown below.

	Regulatory basis		Fully loaded basis	
	2024	2023	**2024**	2023
	£m	£m	**£m**	£m
Credit risk				
Balance sheet assets	**7,303.0**	6,784.2	**7,303.0**	6,784.3
Off balance sheet	**95.8**	87.2	**95.8**	87.2
IFRS 9 transitional relief	**2.7**	13.5	**-**	-
Total credit risk	**7,401.5**	6,884.9	**7,398.8**	6,871.5
Operational risk	**848.0**	740.2	**848.0**	740.2
Market risk	**-**	-	**-**	-
Other	**29.2**	43.6	**29.2**	43.6
Total risk exposure amount ('TRE')	**8,278.7**	7,668.7	**8,276.0**	7,655.3
Solvency ratios	%	%	%	%
CET1	**14.2**	15.5	**14.2**	15.4
TRC	**16.0**	17.5	**16.0**	17.3

This table is not subject to audit

The risk weightings for credit risk exposures are currently calculated using the Standardised Approach ('SA'). The Basic Indicator Approach is used for operational risk.

Leverage ratio

The table below shows the calculation of the Group's leverage ratio as defined in the PRA Rulebook. This rate is based on consolidated balance sheet assets adjusted as shown. The PRA has set a minimum UK leverage ratio of 3.25% for UK firms with retail deposits of over £50.0 billion, or with significant overseas assets. In addition, in October 2021 the PRA stated its expectation that all other UK firms, such as the Group, should manage their leverage risk so that this ratio does not ordinarily fall below 3.25%.

	Note	**2024**	2023
		£m	£m
Total balance sheet assets		**19,270.0**	18,420.2
Add: Credit fair value adjustments on loans to customers	*18*	**75.2**	379.3
Debit fair value adjustments on retail deposits	*33*	**-**	30.9
Adjusted balance sheet assets		**19,345.2**	18,830.4
Less: Derivative assets	*26*	**(391.8)**	(615.4)
Central bank deposits	*16*	**(2,315.5)**	(2,783.3)
CRDs	*27*	**-**	(38.0)
Accrued interest on sovereign exposures		**(3.8)**	(4.2)
On balance sheet items		**16,634.1**	15,389.5
Less: Intangible assets	*30*	**(171.5)**	(168.2)
Pension surplus	*60*	**(22.2)**	(12.7)
Total on balance sheet exposures		**16,440.4**	15,208.6
Regulatory exposure for derivatives		**154.7**	179.6
Total derivative exposures		**154.7**	179.6
Post offer pipeline at gross notional amount		**1,210.2**	993.3
Adjustment to convert to credit equivalent amounts		**(1,000.1)**	(815.7)
Off balance sheet items		**210.1**	177.6
Tier 1 capital		**1,177.9**	1,188.9
Total leverage exposure before IFRS 9 relief		**16,805.2**	15,565.8
IFRS 9 relief		**2.7**	13.5
Total leverage exposure		**16,807.9**	15,579.3
UK leverage ratio		**7.0%**	7.6%

This table is not subject to audit

The fully loaded leverage ratio is calculated as follows

	2024	2023
	£m	£m
Fully loaded tier 1 capital	**1,175.2**	1,175.4
Total leverage exposure before IFRS 9 relief	**16,805.2**	15,565.8
Fully loaded UK leverage ratio	**7.0%**	7.6%

This table is not subject to audit.

The Group calculates regulatory exposure on derivatives using the Standardised Approach for Counterparty Credit Risk ('SA-CCR'), which includes elements based on the market value of derivative assets adjusted for collateral, amongst other things, and based on potential future exposure in respect of all derivatives held.

The UK leverage ratio is prescribed by the PRA and differs from the leverage ratio defined by Basel due to the exclusion of central bank balances from exposures.

Capital requirements in subsidiary entities

The regulatory capital disclosures in these financial statements relate only to the consolidated position for the Group. Individual entities within the Group are also subject to supervision on a standalone basis. All such entities complied with the requirements to which they were subject during the year.

(b) Return on tangible equity ('RoTE')

RoTE is a measure of an entity's profitability used by investors. RoTE is defined by the Group by comparing the profit after tax for the year, adjusted for amortisation charged on intangible assets, to the average of the opening and closing equity positions, excluding intangible assets and goodwill.

It effectively reflects a return on equity as if all intangible assets are eliminated immediately against reserves. As this is similar to the approach used for the capital of financial institutions it is widely used in the sector.

The Group's consolidated RoTE for the year ended 30 September 2024 is derived as follows:

	Note	**2024**	2023
		£m	£m
Profit for the year after tax		**186.0**	153.9
Amortisation and derecognition of intangible assets	*30*	**1.2**	3.6
Adjusted profit		**187.2**	157.5
Divided by			
Opening equity		**1,410.6**	1,417.3
Opening intangible assets	*30*	**(168.2)**	(170.2)
Opening tangible equity		**1,242.4**	1,247.1
Closing equity		**1,419.5**	1,410.6
Closing intangible assets	*30*	**(171.5)**	(168.2)
Closing tangible equity		**1,248.0**	1,242.4
Average tangible equity		**1,245.2**	1,244.7
Return on Tangible Equity		**15.0%**	12.7%

This table is not subject to audit

(c) Dividend and distribution policy

The Company is committed to a long-term sustainable dividend policy. Ordinarily, dividends will increase in line with earnings, subject to the requirements of the business and the availability of cash resources. The Board reviews the policy at least twice a year in advance of announcing its results, taking into account the Group's strategy, capital requirements, principal risks and the objective of enhancing shareholder value.

In determining the level of dividend for any year, the Board expects to follow the dividend policy, but will also take into account the level of available retained earnings in the Company, its cash resources and the cash and capital requirements inherent in its business plans. In addition to the payment of dividends, the Board may also consider whether it is appropriate to apply excess capital in the market purchase of the Group's shares.

The distributable reserves of the Company comprise its profit and loss account balance (note 46) and, other than the regulatory requirement to retain an appropriate level of capital in Paragon Bank PLC, there are no restrictions preventing profits elsewhere in the Group from being distributed to the parent.

Since the year ended 30 September 2018, the Company has adopted a policy of paying out approximately 40% of its basic earnings per share as dividend (a dividend cover ratio of around 2.5 times), in the absence of any idiosyncratic factors which might make such a dividend inappropriate. This policy is reviewed by the Board at least annually. The Company considers it has access to sufficient cash resources to pay dividends at this level and that its distributable reserves are abundant for this purpose.

To provide greater transparency, the Board also adopted a policy of paying an interim dividend in each year equivalent to half of the preceding final dividend in the absence of any factors which might make such a distribution inappropriate. For the current year, based on its review of the Group's capital position and forecasts, the Board determined that an interim dividend in line with this policy was appropriate. It therefore declared an interim dividend for the year of 13.2p per share (2023: 11.0p per share). The Board also confirmed that the Group's normal approach of paying an interim dividend of 50% of the preceding year's final dividend would continue to apply in future years.

The appropriate level of final dividend for the current year was considered by the Board in light of economic and regulatory developments in the year, and the various potential paths for the UK economy. In particular the levels of provision in the Group's loan portfolios and the potential for further provision under stress in the event of a worsening UK economic position were considered by the Board. These were compared to the regulatory capital position at the year end along with the capital impacts of stress testing carried out as part of the ICAAP and forecasting processes, and the potential impacts of ongoing developments in the regulatory regime for capital including the introduction in the UK of Basel 3.1.

The Board particularly considered the appropriateness of including net losses relating to fair value adjustments from hedging in the calculation of any dividend or distribution, as these primarily result from the reversal of gains recorded in earlier years which were disregarded, at the time, for the purpose of determining dividends. Given the size of such adjustments in the period, the Board concluded that their inclusion was not consistent with its overarching aim of delivering a sustainable dividend which grows with the earnings of the business. This is in line with the approach adopted in previous years.

On the basis of this analysis the Board concluded that a total dividend of around 40% of earnings excluding fair value items could be paid.

The Board will therefore propose a final dividend for the year of 27.2p per share (2023: 26.4p per share) for approval at the 2025 AGM, making a total dividend for the year of 40.4p per share (2023: 37.4p per share).

A share buy-back programme for the current financial year, for up to £50.0m of ordinary shares was authorised at the time of the Group's 2023 results announcement. This was extended to £100.0m in June 2024. The amount expended in the year was £76.6m (note 47) and the share buy-back continued after the year end, until regulatory authority for the programme lapsed on 31 October 2024, under an irrecoverable purchase instruction given to the Group's brokers shortly before the end of the financial year.

As part of its consideration of capital described above the Board of Directors authorised the completion of the remaining £7.5m of the buy-back programme described above together with a new buy-back of up to £50.0m to commence shortly after the announcement of the 2024 results. All shares acquired in buy-back programmes are initially held in treasury.

The directors have considered the distributable resources of the Company and concluded that these distributions are appropriate.

The most recent policy review, in November 2024, also confirmed the existing dividend policy would continue to apply for future periods, subject to the impact of any future events, and the Board will consider the appropriateness and scale of any interim dividend in the context of the Group's results and the operating and economic environment at the time. Share buy-backs will be considered where excess capital has arisen, either operationally or as a result of changed regulatory requirements.

62. Financial risk management

The principal risks arising from the Group's exposure to financial instruments are credit risk, liquidity risk and market risk (particularly interest rate risk and a limited amount of currency risk). The nature and extent of these risks are discussed in notes 63 to 65 respectively.

The Board has a Risk and Compliance Committee, consisting of the Chair of the Board and the non-executive directors, which is responsible for providing oversight and challenge to the Group's risk management arrangements. Executive responsibility for the oversight and operation of the Group's risk management framework is delegated to the ERC. ERC discharges its duties through a number of sub-committees and escalates issues of concern to the Risk and Compliance Committee where appropriate.

The Credit Committee and ALCO are sub-committees of the ERC which monitor performance against the risk appetites set by the Board and make recommendations for changes in risk appetite where appropriate. They also review and, where authorised to do so, agree or amend policies for managing each of these risks, which are summarised in the relevant note. The Corporate Governance Statement in Section B3 (which is not subject to audit) provides further detail on the operations of these committees.

The financial risk management policies have remained unchanged throughout the year and since the year end. The position discussed in notes 63 to 65 is materially similar to that existing throughout the year.

63. Credit risk

The assets of the Group and the Company which are subject to credit risk are set out below.

		The Group		The Company	
	Note	**2024**	2023	**2024**	2023
		£m	£m	**£m**	£m
Financial assets at amortised cost					
Loans to customers	*18*	**15,705.5**	14,874.3	**-**	-
Trade receivables	*27*	**1.5**	1.5	**-**	-
Intra-group cash deposits	*27*	**-**	-	**107.6**	193.6
Amounts owed by Group companies	*27*	**-**	-	**20.9**	35.1
Investment securities	*17*	**427.4**	-	**-**	-
Cash	*16*	**2,525.4**	2,994.3	**18.2**	27.6
CRDs	*27*	**-**	38.0	**-**	-
Accrued interest income	*27*	**11.1**	4.6	**0.1**	0.1
		18,670.9	17,912.7	**146.8**	256.4
Financial assets at fair value					
Derivative financial assets	*26*	**391.8**	615.4	**-**	-
Maximum exposure to credit risk		**19,062.7**	18,528.1	**146.8**	256.4

All financial assets at amortised cost are subject to the requirements of IFRS 9 relating to impairment.

Further information on the Group's exposure to credit risk by asset type, including the credit quality of assets and any potential concentrations of credit risk, is set out below for:

- Loans to customers
- Investment securities
- Cash balances (including CSA assets, CRDs and accrued interest)
- Trade receivables
- Derivative financial assets

Loans to customers

The Group's credit risk is primarily attributable to its loans to customers and its business objectives rely on maintaining a high-quality customer base and place strong emphasis on prudent credit management, both at the time of acquiring or underwriting a new loan, where robust lending criteria are applied, and throughout the loan's life.

Primary responsibility for the management of credit risk relating to lending activities across the Group lies with the Credit Committee. The Credit Committee, which reports to the ERC, is made up of senior employees, drawn from financial and risk functions independent of the underwriting process. It is chaired by the Credit Risk Director. Its key responsibilities include setting and reviewing credit policy, controlling applicant quality, tracking account performance against targets, agreeing product criteria and lending guidelines and monitoring performance and trends.

The Group's underwriting philosophy is based on sophisticated individual credit assessment supported by the automated efficiencies of statistically based evaluation models. Information on each applicant is combined with data taken from credit reference agencies and other external sources to provide a complete credit picture of the applicant and the borrowing requested. Key information is validated through a combination of documentation and statistical data which collectively provides evidence of the applicant's ability and willingness to pay the amount contracted under the loan agreement. Similarly, where assets form part of the security to support the loan, robust asset valuation processes ensure appropriate risk mitigation is in place. Even so, in assessing credit risk, an applicant's ability and propensity to repay the loan remain the principal factors in the decision to lend, even where the Group would have security on the proposed loan.

In considering whether to acquire pools of loan assets, the Group will undertake a due diligence exercise on the underlying loan accounts. Such assets are generally not fully performing and are offered at a discount to their current balance. The Group's procedures may include inspection of original loan documents, verification of security and the examination of the credit status of borrowers. Current and historic cash flow data will also be examined. The objective of the exercise is to establish, to a level of confidence similar to that provided by the underwriting process, that the assets will generate sufficient cash flows to recover the Group's investment and generate an appropriate return without exposing the Group to material operational or conduct risks.

This section sets out information relevant to assessing the credit risk inherent in the Group's loans to customers balances. It is set out in the following subsections:

- Types of lending and related security
- Overall credit grading
- Credit characteristics of particular portfolios
- Arrears performance
- Acquired assets

Types of lending

The Group's balance sheet loan assets at 30 September 2024 are analysed as follows:

	2024		2023	
	£m	**%**	£m	%
Buy-to-let mortgages	**13,279.3**	**84.6%**	12,720.1	85.5%
Owner-occupied mortgages	**20.3**	**0.1%**	27.7	0.2%
Total first charge residential mortgages	**13,299.6**	**84.7%**	12,747.8	85.7%
Second charge mortgage loans	**116.1**	**0.7%**	154.5	1.0%
Loans secured on residential property	**13,415.7**	**85.4%**	12,902.3	86.7%
Development finance	**884.0**	**5.6%**	747.8	5.0%
Loans secured on property	**14,299.7**	**91.0%**	13,650.1	91.7%
Asset finance loans	**633.2**	**4.1%**	559.1	3.8%
Motor finance loans	**331.4**	**2.1%**	297.7	2.0%
Aircraft mortgages	**31.2**	**0.2%**	26.9	0.2%
Secured BBB schemes	**31.0**	**0.2%**	50.5	0.4%
Structured lending	**256.9**	**1.6%**	169.0	1.1%
Invoice finance	**32.7**	**0.2%**	31.7	0.2%
Total secured loans	**15,616.1**	**99.4%**	14,785.0	99.4%
Professions finance	**53.0**	**0.3%**	52.2	0.4%
Unsecured BBB schemes	**10.5**	**0.1%**	16.7	0.1%
Other unsecured commercial loans	**25.9**	**0.2%**	20.4	0.1%
Total loans to customers	**15,705.5**	**100.0%**	14,874.3	100.0%

First and second charge mortgages are secured by charges over residential properties in England and Wales, or similar Scottish or Northern Irish securities.

Development finance loans are secured by a first charge (or similar Scottish security) over the development property and various charges over the build.

Asset finance loans and motor finance loans are effectively secured by the financed asset, while aircraft mortgages are secured by a charge on the aircraft funded.

Structured lending and invoice finance balances are effectively secured over the assets of the customer, with security enhanced by maintaining balances at a level less than the total amount of the security (the advance percentage).

Professions finance balances are generally short-term unsecured loans made to firms of lawyers and accountants for working capital purposes.

Loans made under BBB supported schemes have the benefit of a guarantee underwritten by the UK Government.

There are no significant concentrations of credit risk to individual counterparties due to the large number of customers included in the portfolios. All lending is to customers within the UK. The total gross carrying value of the Group's loans to customers due from customers with total portfolio exposures over £10.0m is analysed below by product type.

	2024	2023
	£m	£m
Buy-to-let mortgages	**162.0**	149.6
Development finance	**497.9**	390.6
Structured lending	**239.3**	160.3
Asset finance	**11.5**	24.6
	910.7	725.1

The threshold of £10.0m is used internally for monitoring large exposures.

Credit grading

An analysis of the Group's loans to customers by absolute level of credit risk at 30 September 2024 is set out below. The analysed amount represents gross carrying amount.

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
30 September 2024					
Very low risk	**12,028.0**	**75.6**	**1.1**	**3.3**	**12,108.0**
Low risk	**2,194.7**	**343.9**	**44.9**	**0.7**	**2,584.2**
Moderate risk	**182.1**	**199.5**	**16.4**	**1.4**	**399.4**
High risk	**127.6**	**78.1**	**12.4**	**3.0**	**221.1**
Very high risk	**37.0**	**76.3**	**205.2**	**8.2**	**326.7**
Not graded	**135.8**	**2.7**	**3.6**	**0.5**	**142.6**
Total gross carrying amount	**14,705.2**	**776.1**	**283.6**	**17.1**	**15,782.0**
Impairment	**(16.0)**	**(7.2)**	**(50.8)**	**(2.5)**	**(76.5)**
Total loans to customers	**14,689.2**	**768.9**	**232.8**	**14.6**	**15,705.5**
30 September 2023					
Very low risk	11,393.7	23.0	1.9	6.6	11,425.2
Low risk	2,236.4	395.5	73.8	2.5	2,708.2
Moderate risk	157.1	147.3	9.7	1.8	315.9
High risk	34.0	113.3	13.6	3.2	164.1
Very high risk	37.7	63.3	104.1	9.3	214.4
Not graded	113.4	2.4	2.9	1.4	120.1
Total gross carrying amount	13,972.3	744.8	206.0	24.8	14,947.9
Impairment	(19.6)	(9.4)	(39.8)	(4.8)	(73.6)
Total loans to customers	13,952.7	735.4	166.2	20.0	14,874.3

Gradings above are based on credit scorecards or internally assigned risk ratings as appropriate for the individual asset class. These measures are calibrated across product types and used internally to monitor the Group's overall credit risk profile against its risk appetite.

These gradings represent current credit quality on an absolute basis and this may result in assets in higher IFRS 9 stages with low risk grades, especially where a case qualifies through breaching, for example, an arrears threshold but is making regular payments. This will apply especially to Stage 3 cases reported in note 22, other than those shown as 'realisations'.

Examples of lower risk cases in higher IFRS 9 stages include fully up-to-date receiver of rent cases; accounts where the customer is in arrears on their account with the Group but up to date on accounts with other lenders, creating an overall positive credit rating; and accounts where the default on the Group's loan has yet to impact on the external credit score.

A small proportion of the loan book (2024: 0.9%, 2023: 0.8%) is classed as 'not graded' above. This rating generally relates to loans that have been fully underwritten at origination but where the customer falls outside the automated assessment techniques used post-completion.

Credit characteristics by portfolio

Loans secured on residential property

First mortgage loans have a contractual term of up to thirty-five years and second charge mortgage loans up to twenty five years. In all cases the customer is entitled to settle the loan at any point and in most cases early settlement does take place. All customers on these accounts are required to make monthly payments.

An analysis of the indexed Loan-to-Value ('LTV') ratio for those loan accounts secured on residential property by value at 30 September 2024 is set out below. LTVs for second charge mortgages are calculated allowing for the interest of the first charge holder, based on the most recent first charge amount held by the Group, while for acquired accounts the effect of any discount on purchase is allowed for.

	First charge mortgages		Second charge mortgages	
	2024	2023	**2024**	2023
	%	%	**%**	%
Loan to value ratio				
Less than 70%	**71.5**	72.7	**96.1**	94.6
70% to 80%	**25.9**	23.8	**2.3**	3.2
80% to 90%	**1.7**	2.5	**0.8**	0.9
90% to 100%	**0.2**	0.2	**0.2**	0.3
Over 100%	**0.7**	0.8	**0.6**	1.0
	100.0	100.0	**100.0**	100.0
Average LTV ratio	**62.8**	62.7	**50.3**	52.3
Of which:				
Buy-to-let	**62.8**	62.8		
Owner-occupied	**38.9**	39.0		

The regionally indexed LTVs shown above are affected by changes in house prices, with the Nationwide house price index, for the UK as a whole, registering an annual increase of 3.2% in the year ended 30 September 2024 (2023: decrease of 5.3%).

The geographical distribution of the Group's residential mortgage assets by gross carrying value is set out below.

	First charge		Second charge	
	2024	2023	**2024**	2023
	%	%	**%**	%
East Anglia	**3.3**	3.3	**3.3**	3.4
East Midlands	**6.0**	5.9	**6.3**	6.2
Greater London	**18.0**	18.2	**7.5**	7.4
North	**3.4**	3.5	**4.4**	4.2
North West	**10.1**	10.3	**7.4**	7.5
South East	**31.0**	30.6	**37.8**	37.8
South West	**9.1**	9.0	**8.0**	8.4
West Midlands	**6.3**	6.2	**7.2**	7.3
Yorkshire and Humberside	**7.1**	7.4	**6.0**	6.2
Total England	**94.3**	94.4	**87.9**	88.4
Northern Ireland	**-**	-	**2.5**	2.3
Scotland	**2.6**	2.5	**5.8**	5.5
Wales	**3.1**	3.1	**3.8**	3.8
	100.0	100.0	**100.0**	100.0

Development finance

Development finance loans have an average term of 28 months (2023: 26 months). Settlement of principal and accrued interest takes place either on the sale of the development, or units within it, where appropriate, or on the refinancing of the property following its completion. The customer is not normally required to make payments during the term of the loan. The loans are secured by a legal charge over the site and/or property together with other charges and warranties related to the build.

As customers are not required to make payments during the life of the loan, arrears and past due measures cannot be used to monitor credit risk. Instead, cases are monitored on an individual basis against the costs and progress in the agreed development programme by management and Credit Risk. The average loan to gross development value ('LTGDV') ratio for the portfolio at year end, a measure of security cover, is analysed below.

	2024	**2024**	2023	2023
	By value	**By number**	By value	By number
	%	**%**	%	%
LTGDV				
50% or less	**12.4**	**8.9**	8.2	6.1
50% to 60%	**13.4**	**20.1**	17.3	21.7
60% to 65%	**27.5**	**27.3**	37.7	33.0
65% to 70%	**24.1**	**30.1**	25.5	27.4
70% to 75%	**8.1**	**7.2**	5.8	7.4
Over 75%	**14.5**	**6.4**	5.5	4.4
	100.0	**100.0**	100.0	100.0

The average LTGDV cover at the year end was 63.0% (2023: 63.1%).

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

At 30 September 2024, the development finance portfolio comprised 251 accounts (2023: 230) with a total carrying value of £884.0m (2023: £747.8m). Of these accounts 17 were included in Stage 2 at 30 September 2024 (2023: 15), with 19 accounts classified as Stage 3 (2023: 12). In addition, one acquired account had been classified as POCI (2023: one). An allowance for this loss was made in the IFRS 3 fair value calculation.

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

	2024	2023
	%	%
East Anglia	**4.6**	4.4
East Midlands	**11.2**	11.8
Greater London	**11.0**	11.8
North	**0.6**	0.8
North West	**0.7**	0.4
South East	**33.9**	34.0
South West	**19.7**	21.3
West Midlands	**7.9**	6.2
Yorkshire and Humberside	**6.1**	6.6
Total England	**95.7**	97.3
Northern Ireland	**-**	-
Scotland	**3.8**	2.7
Wales	**0.5**	-
	100.0	100.0

Asset finance and motor finance

Asset and motor finance lending includes finance lease and hire purchase arrangements, which are accounted for as finance leases under IFRS 16. The average contractual life of the asset finance loans was 51 months (2023: 49 months) while that of the motor finance loans was 69 months (2023: 68 months), but historical behaviour suggests that a significant proportion of customers will choose to settle their obligations early.

Asset finance customers are generally small or medium sized businesses. The nature of the assets underlying the Group's asset finance lending, including loans financed through BBB sponsored schemes, by gross carrying value is set out below.

	2024	2023
	%	%
Commercial vehicles	**45.3**	41.9
Construction plant	**29.4**	30.9
Manufacturing	**5.3**	6.3
Technology	**4.2**	4.8
Other vehicles	**4.4**	4.7
Refuse disposal vehicles	**4.2**	3.4
Agriculture	**1.6**	2.1
Print and paper	**1.1**	1.6
Other	**4.5**	4.3
	100.0	100.0

Motor finance loans are secured over cars, leisure vehicles (motorhomes, caravans and campervans) and light commercial vehicles and represent exposure to consumers and small businesses.

Structured lending

The Group's structured lending division provides revolving loan facilities to support non-bank lending businesses. Loans are made to a Special Purpose Vehicle ('SPV') company controlled by the customer and effectively secured on the loans made by the SPV. Exposure is limited to a percentage of the underlying assets, providing a buffer against credit loss.

Summary details of the structured lending portfolio are set out below.

	2024	2023
Number of active facilities	**11**	9
Total facilities (£m)	**330.0**	235.7
Carrying value (£m)	**256.9**	169.0

The maximum advance under these facilities is generally 80% of the underlying assets, except where loans secured by residential property form the security for the facility, where 90% is permissible.

Customers are charged interest on their drawn balance at a rate linked to SONIA, and a commitment fee on the undrawn amount of their facility. However, there is generally no requirement to make regular payments of specific amounts, with the facilities operating on a revolving basis, able to be paid down and redrawn over their term.

The performance of each loan is monitored monthly on a case by case basis by the Group's Credit Risk function, assessing compliance with covenants relating to both the customer and the performance and composition of the asset pool. These assessments, which are reported to Credit Committee, are used to inform the assessment of expected credit loss under IFRS 9.

At 30 September 2024 one of these facilities was identified as Stage 2 (2023: none) with the remainder in Stage 1.

BBB supported schemes

These schemes are managed by the British Business Bank ('BBB') and loans made under them have the benefit of guarantees underwritten by the UK Government. They were originally launched as a response to the impact of Covid on UK SMEs, but remain in place.

The Coronavirus Business Interruption Loan Scheme ('CBILS') and the Bounce Back Loan Scheme ('BBLS') were launched in 2020 and remained open for new applications until March 2021. The Recovery Loan Scheme ('RLS') was launched in April 2021 as a successor scheme and has subsequently been extended twice. It was available for new lending until June 2024 at which point it was rebranded as the Growth Guarantee Scheme ('GGS'), on broadly similar terms.

The Group offered term loans and asset finance loans under the CBIL scheme. Interest and fees were paid by the UK Government for the first twelve months and the government guarantee covers up to 80% of the lender's principal loss after the application of any proceeds from the asset financed (if applicable).

Loans under the BBL scheme are six year term loans at a standard 2.5% per annum interest rate. The UK Government paid the interest on the loan for the first twelve months and provides lenders with a guarantee covering the whole outstanding balance.

The Group offers term loans and asset finance loans under the RLS. Interest and fees are payable by the customer from inception. The government guarantee covers up to 80% of the lender's principal loss, after the application of any proceeds from the asset financed (if applicable), on applications received before 1 January 2022 and up to 70% for applications received thereafter under the RLS or under the successor GGS.

The Group's outstanding RLS / GGS, CBILS and BBLS loans at 30 September 2024 were:

	2024	2023
	£m	£m
RLS / GGS		
Term loans	**0.6**	1.0
Asset finance	**23.4**	36.0
Total RLS / GGS	**24.0**	37.0
CBILS		
Term loans	**7.7**	12.6
Asset finance	**7.6**	14.5
Total CBILS	**15.3**	27.1
BBLS	**2.2**	3.1
	41.5	67.2
Total term loans	**10.5**	16.7
Total asset finance (note 19)	**31.0**	50.5
	41.5	67.2

At 30 September 2024, £0.5m of this balance was considered to be non-performing (2023: £0.7m).

Arrears performance

The number of accounts in arrears by asset class, based on the most commonly quoted definition of arrears for the type of asset, at 30 September 2024 and 30 September 2023, compared to the industry averages at those dates published by UK Finance ('UKF') and the Finance and Leasing Association ('FLA'), was:

	2024	2023
	%	%
First mortgages		
Accounts more than three months in arrears		
Buy-to-let accounts including receiver of rent cases	**0.38**	0.34
Buy-to-let accounts excluding receiver of rent cases	**0.19**	0.15
Owner-occupied accounts	**6.59**	2.93
UKF data for mortgage accounts more than three months in arrears		
Buy-to-let accounts including receiver of rent cases	**0.86**	0.64
Buy-to-let accounts excluding receiver of rent cases	**0.76**	0.60
Owner-occupied accounts	**0.97**	0.87
All mortgages	**0.93**	0.82
Second charge mortgage loans		
Accounts more than 2 months in arrears		
All accounts	**24.63**	23.48
Post-2010 originations	**2.92**	2.42
Legacy cases (pre-2010 originations)	**26.88**	26.58
Purchased assets	**31.47**	30.10
FLA data for second mortgage loans	**6.50**	6.30
Motor finance loans		
Accounts more than 2 months in arrears		
All accounts	**1.06**	1.08
Originated cases	**1.06**	1.07
Purchased assets	**1.13**	1.32
FLA data for consumer point of sale hire purchase	**4.10**	3.60
Asset finance loans		
Accounts more than 2 months in arrears	**0.14**	0.23
FLA data for business lease / hire purchase loans	**0.70**	0.60

No published industry data for asset classes comparable to the Group's other books has been identified. Where revised data at 30 September 2023 has been published by the FLA or UKF, the comparative industry figures above have been amended.

Arrears information is not given for development finance, structured lending or invoice finance activities as the structure of the products means that such a measure is not appropriate.

No figure has been calculated for unsecured commercial lending balances due to the size of the exposure.

The Group calculates its headline arrears measure for buy-to-let mortgages, shown above, based on the numbers of accounts three months or more in arrears, including purchased assets, but excluding those cases in possession and receiver of rent cases designated for sale. This is consistent with the methodology used by UKF in compiling its statistics for the buy-to-let mortgage market as a whole.

The number of accounts in arrears will naturally be higher for legacy books, such as the Group's legacy second charge mortgages and residential first mortgages than for comparable active ones, as performing accounts pay off their balances, leaving arrears accounts representing a greater proportion of the total.

The figures shown above for second charge mortgage loans incorporate purchased portfolios which generally include a high proportion of cases in arrears at the time of purchase and where this level of performance is allowed for in the discount to current balance represented by the purchase price. However, this will lead to higher than average reported arrears.

Acquired assets

A significant proportion of the Group' second charge mortgage balances were part of purchased debt portfolios, where the consideration paid was based on the credit quality and performance of the loans at the point of the transaction. No additional loans to customers treated as POCI were acquired in the year ended 30 September 2023 or the year ended 30 September 2024.

Collections on purchased accounts have been comfortably in excess of those implicit in the purchase prices.

In the debt purchase industry, Estimated Remaining Collections ('ERC') is commonly used as a measure of the value of a portfolio. This is defined as the sum of the undiscounted cash flows expected to be received over a specified future period. In the Group's view, this measure may be suitable for heavily discounted, unsecured, distressed portfolios (which will be treated as POCI under IFRS 9), but is less applicable for the types of portfolio in which the Group has invested, where cash flows are higher on acquisition, loans may be secured on property and customers may not be in default. In such cases, the IFRS 9 amortised cost balance, at which these assets are carried in the Group balance sheet, provides a better indication of value.

However, to aid comparability, the 84 and 120 month ERCs value for the Group's purchased consumer loan assets, are set out below. These are derived using the same models and assumptions used in the EIR calculations. ERCs are set out both for all purchased consumer portfolios and for those classified as POCI under IFRS 9.

	2024	2023	2022
	£m	£m	£m
All purchased consumer assets			
Carrying value	**41.1**	58.6	75.3
84 month ERCs	**48.6**	68.9	88.6
120 month ERCs	**52.9**	73.4	94.2
POCI assets only			
Carrying value	**10.6**	17.7	21.4
84 month ERCs	**15.6**	24.5	29.9
120 month ERCs	**18.7**	27.8	33.0

Amounts shown above are disclosed as loans to customers (note 18). They include first mortgages and second charge mortgage loans.

Investment securities

The credit risk inherent in the Group's investment securities is controlled by ALCO, which determines the nature of securities which may be invested in and the types of issuers in whose securities the Group may invest. The Group has formal risk appetites, policies and limits, approved by the Risk and Compliance Committee.

The Group's holdings at 30 September 2024, described in note 17, comprise gilts issued by the UK Government and covered bonds issued by UK institutions.

The Group's investments are analysed below according to the public credit rating assigned to institutional exposures, or by the credit ratings assigned by Fitch for sovereign (UK Government) exposures.

	2024			2023		
	Sovereign	**Institutional**	**Total**	Sovereign	Institutional	Total
	£m	**£m**	**£m**	£m	£m	£m
Rating						
AAA	-	**23.0**	**23.0**	-	-	-
AA-	**404.4**	-	**404.4**	-	-	-
	404.4	**23.0**	**427.4**	-	-	-

Cash balances

The credit risk inherent in the cash positions of the Group and the Company is controlled by ALCO, which determines which institutions deposits may be placed with. The Group has formal risk appetites, policies and limits, approved by the Risk and Compliance Committee. These include limitations on large exposures to mitigate any concentration risk in respect of its investments.

For cash deposits within the Group's securitisation structures, the scheme documents will set out criteria for allowable investments, including rating thresholds.

The Group's cash balances are held in sterling at the Bank of England and at highly rated banks in current and call accounts. Cash is also invested as short fixed-term money market deposits from time-to-time.

The carrying value of the Group's and the Company's cash balances analysed by their long-term credit rating as determined by Fitch is set out below.

	2024	2023
	£m	£m
The Group		
Cash with central banks rated:		
AA-	**2,315.5**	2,783.3
Cash with retail banks rated:		
AA-	**98.2**	78.9
A+	**111.7**	132.1
	209.9	211.0
Total exposure	**2,525.4**	2,994.3
The Company		
Cash with retail banks rated:		
A+	**18.3**	28.1

CRDs were exposures to the Bank of England and thus share the central bank rating noted above while CSA assets, placed with retail banks, have similar ratings to those shown above for retail bank deposits.

Credit risk on all these balances, and any interest accrued thereon, is considered to be minimal. These balances are considered as Stage 1 for IFRS 9 impairment purposes with a PD such that any provision required would be immaterial.

Trade debtors

The Group's trade debtors balance represents principally amounts outstanding on unpaid operating lease obligations in the asset finance business, where similar acceptance criteria to those used for finance lease cases apply.

Financial assets at fair value

The Group's financial assets held at fair value comprise solely derivative financial instruments used for hedging purposes (note 26).

In order to control credit risk relating to counterparties to the Group's derivative financial instruments, ALCO reviews and approves which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits. Any changes necessary are advised to ERC. The Group's counterparties are typically highly rated banks and, for all derivative positions held within securitisation structures, must comply with criteria set out in the financing arrangements, which are monitored externally.

Since June 2019, the Group has been centrally clearing certain eligible derivatives with a Central Clearing Counterparty ('CCP') which removes credit risk between bilateral counterparties and ensures timely settlement and / or porting of derivative contracts in the event of the failure of a counterparty.

The Group uses the ISDA Master Agreement and Credit Support Annex ('CSA') for documenting uncleared derivative activity. Under a CSA, collateral is passed between counterparties to mitigate the market contingent counterparty risk inherent in the outstanding positions. Collateral pledged to such counterparties by the Group is shown in note 27, while collateral pledged to the Group is shown in note 40.

The Group's exposure to credit risk in respect of the counterparties to its derivative financial assets, analysed by their long-term credit rating as determined by Fitch is set out below.

	2024	2023
	£m	£m
Carrying value of derivative financial assets		
Counterparties rated		
AA	**0.4**	-
AA-	**2.0**	3.3
A+	**357.8**	588.9
A	**-**	5.5
A-	**31.6**	17.7
Gross exposure (note 26)	**391.8**	615.4
Collateral amounts posted		
CSA collateral amounts (note 40)	**(103.6)**	(383.4)
Total collateral	**(103.6)**	(383.4)
Net exposure	**288.2**	232.0

64. Liquidity risk

Liquidity risk is the risk that the Group might be unable to meet its liabilities and financial commitments as they fall due.

The Group's principal source of liquidity risk is from its retail deposit funding. Amounts raised are typically used to support lending activities where maturity is over a longer period than that of the deposits. This maturity transformation exposes the Group to liquidity risk.

Other sources of liquidity risk in the normal course of business include that arising:

- In the medium term from the Group's corporate and retail bonds which are used to support its general operations and from its participation in central bank funding schemes
- From the Group's derivatives portfolio which gives rise to liquidity risk due to the collateral requirements to cover adverse changes in valuation
- From the Group's participation in wholesale funding, including SPVs, where sufficient funding must be available

Liquidity is also required to provide capital support for new loans and working capital for the Group.

Where assets are funded by non-recourse arrangements, through the securitisation process, liquidity risk is effectively eliminated.

As an authorised deposit taker, the liquidity position of Paragon Bank PLC, the Group's banking subsidiary, is also managed on a stand-alone basis.

Set out below is a summary of the contractual cash flows expected to arise from the Group's financial and leasing liabilities, based on the earliest date at which repayment can be demanded.

			Amounts payable		
	In one year or less, or on demand	**In more than one year, but not more than two years**	**In more than two years but not more than five years**	**In more than five years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
30 September 2024					
Retail deposits	**14,559.7**	**1,657.2**	**740.7**	**63.0**	**17,020.6**
Borrowings	**150.3**	**761.6**	**28.0**	**163.0**	**1,102.9**
Total non-derivative liabilities	**14,710.0**	**2,418.8**	**768.7**	**226.0**	**18,123.5**
Derivative liabilities	**21.8**	**31.3**	**52.0**	**7.5**	**112.6**
	14,731.8	**2,450.1**	**820.7**	**233.5**	**18,236.1**
30 September 2023					
Retail deposits	11,278.3	1,782.5	734.5	44.4	13,839.7
Borrowings	327.1	160.3	2,811.3	170.1	3,468.8
Total non-derivative liabilities	11,605.4	1,942.8	3,545.8	214.5	17,308.5
Derivative liabilities	52.8	(5.9)	8.7	0.3	55.9
	11,658.2	1,936.9	3,554.5	214.8	17,364.4

Non-recourse balances are payable only to the extent that funds are available, as described further below, and do not expose the Group to any material liquidity risk. They are therefore not included in the table above.

As the amounts set out above include all expected future cash flows, including principal and interest, they will not correspond to amortised cost or fair value amounts reported in the balance sheet.

Further information on the liquidity exposure arising from the Group's retail deposits, securitisation and other borrowings is set out below.

The liquidity exposures of the Company arise only from its borrowings, and are set out below.

The overall responsibility for the management of liquidity risk rests with ALCO which makes recommendations for the Group's liquidity policy for board approval. ALCO monitors liquidity risk metrics within limits set by the Board and/or regulators and uses detailed cash flow projections to ensure that an adequate level of liquidity is available at all times.

The Group's and the Bank's liquidity position is managed on a day-to-day basis by the treasury function, under the supervision of ALCO.

Retail deposits

The Group's retail funding strategy is focussed on building a stable mix of deposit products. A high proportion of balances, around 95%, are protected by the FSCS which mitigates against the possibility of a retail run.

The cash outflows, including principal and estimated interest contractually required by the Group's retail deposit balances, analysed by the earliest date at which repayment can be demanded are set out below:

	2024	2023
	£m	£m
Payable on demand	**7,697.6**	4,181.5
Payable in less than three months	**1,718.0**	1,649.5
Payable in less than one year but more than three months	**5,144.1**	5,447.3
Payable in less than one year or on demand	**14,559.7**	11,278.3
Payable in one to two years	**1,657.2**	1,782.5
Payable in two to five years	**740.7**	734.5
Payable after more than five years	**63.0**	44.4
	17,020.6	13,839.7

In order to reduce the liquidity risk inherent in the Group's retail deposit balances, the PRA requires that the Bank, like other regulated banks, maintains a buffer of liquid assets to ensure it has sufficient available funds at all times to protect against unforeseen circumstances. The amount of this buffer is calculated using Individual Liquidity Guidance ('ILG') set by the PRA based on the Internal Liquidity Adequacy Assessment Process ('ILAAP') undertaken by the Bank. The ILAAP determines the liquid resources that must be maintained in the Bank to meet the Overall Liquidity Adequacy Rule ('OLAR') and to ensure that it can meet its liabilities as they fall due. It is based on an analysis of its business as usual forecast cash requirements but also considers their predicted behaviour in stressed conditions.

At 30 September 2024 the liquidity buffer comprised the following on and off balance sheet assets. All these assets are held within Paragon Bank. Balances with central banks are immediately available, while investment securities can be readily monetised with third parties, through repo transactions or by use of liquidity facilities available at the Bank of England.

	Note	**2024**	2023
		£m	£m
Balances with central banks		**2,207.9**	2,589.7
Investment securities	*17*	**427.4**	-
Total on balance sheet liquidity		**2,635.3**	2,589.7
Long / short repo transaction		**150.0**	150.0
		2,785.3	2,739.7

Balances with central banks above exclude group treasury balances placed on deposit at the Bank of England through Paragon Bank (note 27).

Paragon Bank manages its Liquidity Coverage Ratio ('LCR'), the level of its High Quality Liquid Assets ('HQLA') relative to its short-term forecast net cash outflows. A minimum level of LCR is set through regulation for all regulated financial institutions. As at 30 September 2024, the Bank's LCR was comfortably above the required minimum regulatory standard. The Bank also monitors its Net Stable Funding Ratio ('NSFR') which measures the stability of the funding profile in relation to the composition of its assets and off balance sheet activities.

Liquidity is not regulated at Group level.

Borrowings

Set out below is the contractual maturity profile of the Group's and the Company's borrowings at 30 September 2024 and 30 September 2023 based on their carrying values. These are analysed between non-recourse (securitisation) and other funding, with the liquidity position arising principally from the other funding.

The Group

	Financial liabilities falling due:				
	In one year or less, or on demand	In more than one year, but not more than two years	In more than two years but not more than five years	In more than five years	Total
	£m	£m	£m	£m	£m
30 September 2024					
Asset backed loan notes	-	-	-	-	-
Total non-recourse funding	-	-	-	-	-
Bank overdrafts	**0.4**	-	-	-	**0.4**
Retail bonds	-	-	-	-	-
Corporate bond	-	-	-	**149.9**	**149.9**
Central bank facilities	**5.0**	**744.8**	**5.2**	-	**755.0**
Sale and repurchase agreements	**100.0**	-	-	-	**100.0**
Lease liabilities	**2.9**	**2.1**	**2.9**	-	**7.9**
	108.3	**746.9**	**8.1**	**149.9**	**1,013.2**
30 September 2023					
Asset backed loan notes	-	-	-	28.0	28.0
Total non-recourse funding	-	-	-	28.0	28.0
Bank overdrafts	0.2	-	-	-	0.2
Retail bonds	112.4	-	-	-	112.4
Corporate bond	-	-	-	145.8	145.8
Central bank facilities	-	-	2,750.0	-	2,750.0
Sale and repurchase agreements	50.0	-	-	-	50.0
Lease liabilities	2.6	2.4	3.4	0.5	8.9
	165.2	2.4	2,753.4	174.3	3,095.3

The Company

	Financial liabilities falling due:				
	In one year or less, or on demand	In more than one year, but not more than two years	In more than two years but not more than five years	In more than five years	Total
	£m	£m	£m	£m	£m
30 September 2024					
Retail bonds	-	-	-	-	-
Corporate bond	-	-	-	**149.6**	**149.6**
Lease liabilities	**1.4**	**1.4**	**4.4**	**5.2**	**12.4**
	1.4	**1.4**	**4.4**	**154.8**	**162.0**
30 September 2023					
Retail bonds	112.4	-	-	-	112.4
Corporate bond	-	-	-	149.4	149.4
Lease liabilities	1.3	1.4	4.3	6.7	13.7
	113.7	1.4	4.3	156.1	275.5

IFRS 7 requires the disclosure of future contractual cash flows (including interest) on these borrowings, and these are described and set out on the following pages.

Non-recourse funding

The Group has historically used securitisation as a principal source of funding, but currently only accesses this market on a strategic basis with no external balances outstanding at 30 September 2024. In a securitisation an SPV company within the Group will issue asset backed loan notes secured on a pool of mortgage or other loan assets beneficially owned by the SPV either to external investors in a public offer, or to another group company. Notes held internally can be used as security to access other funding sources.

The notes have a maturity date later than the final repayment date for any asset in the pool, typically over thirty years from the issue date. The noteholders are entitled to receive repayment of the note principal from principal funds generated by the loan assets from time-to-time, but their right to the repayment of principal is limited to the cash available in the SPV. Similarly, payment of accrued interest to the noteholders is limited to cash generated within the SPV. There is no requirement for any group company other than the issuing SPV to make principal or interest payments in respect of the notes. This matching of the maturities of the assets and the related funding substantially reduces the Group's exposure to liquidity risk. Details of notes in issue are given in note 34 and the assets backing the notes are shown in note 18.

In each case the Group provides funding to the SPV at inception, subordinated to the notes, which means that the primary credit risk on the pool assets is retained within the Group. The Group receives the residual income generated by the assets. These factors mean that the risks and rewards of ownership of the assets remain with the Group, and hence the loans remain on the Group's balance sheet, whether the notes are issued externally or retained.

Cash received from time-to-time in each SPV is held until the next interest payment date when, following payment of principal, interest and the associated costs of the SPV, the remaining balances become available to the Group. Cash balances are also held within each SPV to provide credit enhancement for the particular securitisation, allowing interest and principal payments to be made even if some of the loans default. The cash balances of the SPV companies are included within the restricted cash balances disclosed in note 16 as 'securitisation cash'.

The sterling principal amount outstanding at 30 September 2024 under the SPV and warehouse arrangements was £nil (2023: £28.4m). The total sterling amount payable under these arrangements, were these principal amounts to remain outstanding until the final repayment date, would be £nil (2023: £43.3m). As the principal will, as discussed above, reduce as customers repay or redeem their accounts, the cash flow will be far less than this amount in practice.

Corporate debt

The Group issued £150.0m of tier-2 debt in March 2021. This bond is optionally callable between 25 June 2026 and 25 September 2026 and has a final maturity date of 25 September 2031.

In February 2013, the Company initiated a Euro Medium Term Note issuance programme, with a maximum issuance of £1,000.0m. The Company had the ability to issue further notes under the programme and has issued three fixed rate bonds for a total of £297.5m, with interest rates ranging from 6.000% to 6.125% and maturities ranging from December 2020 to August 2024. The last of these bonds was repaid in the year.

The Group's ability to issue debt is supported by its credit rating issued by Fitch which was affirmed at BBB+ in February 2024. At the same time, the Group's principal operating subsidiary, Paragon Bank PLC, was also guaranteed a Long-term Issuer Default rating of BBB+ by Fitch, increasing the range of funding solutions available.

Central bank facilities

The Group has accessed term credit facilities under the central bank schemes described in note 38. No amounts fall due under these schemes before October 2025, but substantial repayments have already been made. The Group has prepositioned further assets with the Bank of England which can be used to release more funds for liquidity or other purposes. At 30 September 2024 the amount of drawings available in respect of prepositioned assets was £4,445.9m (2023: £1,715.4m).

Additional liquidity

The Group holds certain of its own listed, externally rated, asset backed securities which may be used as security to access term credit and other facilities, including those offered by the Bank of England. The principal value of these notes is analysed by credit grade and utilisation status below.

	2024			2023		
	Utilised	**Available**	**Total**	Utilised	Available	Total
	£m	**£m**	**£m**	£m	£m	£m
Rating						
AAA	**225.5**	**1,536.2**	**1,761.7**	222.1	986.9	1,209.0
AA+ / AA / AA-	**5.8**	**109.4**	**115.2**	5.3	100.9	106.2
A+ / A / A-	**3.7**	**70.0**	**73.7**	3.1	59.9	63.0
BBB+ / BBB / BBB-	**4.3**	**81.6**	**85.9**	3.1	57.9	61.0
	239.3	**1,797.2**	**2,036.5**	233.6	1,205.6	1,439.2

As these notes are held internally, they are not included in balance sheet liabilities. Mortgage assets backing these securities remain on the Group's balance sheet and are included in amounts pledged as collateral in note 18.

Utilised notes includes those which the Group is obliged to hold under regulations governing securitisation issuance.

The available AAA notes would give access to £751.9m (2023: £769.8m) if used to secure drawings on Bank of England facilities.

The Group's holdings of investment securities (note 17) are also available to access term credit and other facilities in a similar way.

During the year ended 30 September 2020, the Group entered into a back-to-back long / short sale and repurchase ('repo') transaction with a UK bank which continued throughout the current year. This provides £150.0m of liquidity (2023: £150.0m), utilising £26.5m of the loan notes shown above, but does not appear on the Group's balance sheet.

The Group has also entered into short-term repo transactions from time-to-time, including during the current year, and maintains the capability to access the repo market for liquidity purposes. Transactions in place at 30 September 2024 (note 39) utilised £111.0m of the loan notes shown above (2023: £58.5m).

Contractual cash flows

The total undiscounted amounts, inclusive of estimated interest, which would be payable in respect of the non-securitisation borrowings of the Group and the Company, should those balances remain outstanding until the contracted repayment date, or the earliest date on which repayment can be required, are set out below.

	Corporate bonds	Retail bonds	Central bank facilities	Sale and repurchase transactions	Lease liabilities	Total
	£m	£m	£m	£m	£m	£m
a) The Group						
30 September 2024						
Payable in:						
Less than one year	**6.6**	**-**	**39.4**	**101.4**	**2.9**	**150.3**
One to two years	**6.6**	**-**	**752.9**	**-**	**2.1**	**761.6**
Two to five years	**19.7**	**-**	**5.3**	**-**	**3.0**	**28.0**
Over five years	**163.0**	**-**	**-**	**-**	**-**	**163.0**
	195.9	**-**	**797.6**	**101.4**	**8.0**	**1,102.9**
30 September 2023						
Payable in:						
Less than one year	6.6	119.3	147.8	50.8	2.6	327.1
One to two years	6.6	-	151.3	-	2.4	160.3
Two to five years	19.7	-	2,788.2	-	3.4	2,811.3
Over five years	169.6	-	-	-	0.5	170.1
	202.5	119.3	3,087.3	50.8	8.9	3,468.8

	Corporate bonds	Retail bonds	Lease liabilities	Total
	£m	£m	£m	£m
b) The Company				
30 September 2024				
Payable in:				
Less than one year	**6.6**	**-**	**1.7**	**8.3**
One to two years	**6.6**	**-**	**1.7**	**8.3**
Two to five years	**19.7**	**-**	**5.0**	**24.7**
Over five years	**163.0**	**-**	**4.9**	**167.9**
	195.9	**-**	**13.3**	**209.2**
30 September 2023				
Payable in:				
Less than one year	6.6	119.3	1.7	127.6
One to two years	6.6	-	1.7	8.3
Two to five years	19.7	-	5.0	24.7
Over five years	169.6	-	7.0	176.6
	202.5	119.3	15.4	337.2

Amounts payable in respect of the 'other accruals' and 'trade creditors' shown in note 40 fall due within one year. The cash flows described above will include those for interest on borrowings accrued at 30 September 2024 disclosed in note 40.

The cash flows which are expected to arise from derivative contracts in place at the year end, estimating future floating rate payments and receipts on the basis of the yield curve at the balance sheet date are as follows:

	2024	2023
	Total cash outflow / (inflow)	Total cash outflow / (inflow)
	£m	£m
On derivative liabilities		
Payable in less than one year	**21.8**	52.8
Payable in one to two years	**31.3**	(5.9)
Payable in two to five years	**52.0**	8.7
Payable in over five years	**7.5**	0.3
	112.6	55.9
On derivative assets		
Payable in less than one year	**(117.4)**	(218.2)
Payable in one to two years	**(106.5)**	(175.4)
Payable in two to five years	**(46.5)**	(162.3)
Payable in over five years	**(8.4)**	-
	(278.8)	(555.9)
	(166.2)	(500.0)

65. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's exposure to market risk is mainly through interest rate risk, though there is some minor exposure to currency risk. These exposures arise solely through the Group's lending and deposit taking business - no speculative trading in financial instruments is undertaken.

Interest rate risk

Interest rate risk is the current or prospective risk to capital or earnings arising from adverse movements in interest rates. The Group's exposure to this risk is a natural consequence of its lending, deposit-taking and other borrowing activities, as some of its financial assets and liabilities bear interest at rates which float with various market rates, principally SONIA, some at variable rates, controlled by the Group, subject to market pressures, while others are fixed, either for a term or for their whole lives. Such risk is referred to as Interest Rate Risk in the Banking Book ('IRRBB'). The Group does not seek to generate income from taking interest rate risk and aims to minimise exposures that occur as a natural consequence of carrying out its normal business activities.

The Group balance sheet also includes assets, liabilities and equity which, by their nature, do not attract interest.

IRRBB is managed through board approved risk appetite limits and policies. The Group seeks to match the structure of assets and liabilities naturally where possible or by using appropriate financial instruments, such as interest rate swaps.

In developing this strategy, the Group also has regard to the potential impact of fixed rate lending and deposit pipelines, and of the difference in value between total interest-earning assets and total interest-bearing liabilities, largely represented by the Group's equity, both of which can lead to additional exposure to interest rate movements.

Day-to-day management of interest rate risk is the responsibility of the Group's Treasury function, with control and oversight provided by ALCO.

The Group's risk management framework for IRRBB continues to evolve in line with updates in regulatory guidance on methods expected to be used by banks measuring, managing, monitoring and controlling such risks.

IRRBB exposures

Risk exposure in the Group's operations might occur through:

- Duration or re-pricing risk. The risk created when interest rates on assets, liabilities and off balance sheet items reprice at different times causing them to move by different amounts
- Basis risk. The risk arising where assets and liabilities re-price with reference to different reference interest rates, for example rates set by the Group and market rates, such as Bank of England base rate and SONIA. Relative changes in the difference between the reference rates over time may impact earnings
- Optionality or prepayment risk. The risk that settlement of asset and liability balances at different times from those forecast due to economic conditions or customer behaviour may create a mismatch in future periods

Due to the maturity transformation inherent in the Group's business model it is also exposed to the risk that the relationship between the rates affecting the shorter-term funding balance and the rates affecting the longer-term lending balance will have altered when the funding has to be refinanced.

The Group measures these risks through a combination of economic value and earnings-based measures considering prepayment risk:

- Economic Value ('EV') – a range of parallel and non-parallel interest rate stresses are applied to assess the change in market value from assets, liabilities and off balance sheet items re-pricing at different times
- Net Interest Income ('NII') - impact on earnings from a range of interest rate stresses

The Group's use of financial derivatives for hedging interest rate risk relating to its fixed rate lending, deposit taking, investing and borrowing activities is discussed further in note 26.

Interest rate sensitivity

To provide a broad indication of the Group's exposure to interest rate movements, the notional impact of a 1.0% change in UK interest rates on the equity of the Group at 30 September 2024, and the notional annualised impact of such a change on the operating profit of the Group, based on the year-end balance sheet have been calculated.

As a simplification this calculation assumes that all relevant UK interest rates move by the same amount in parallel and that all repricing takes place at the balance sheet date.

On this basis, a 1.0% increase in UK interest rates would increase profit before tax by £3.5m (2023: increase by £16.1m).

The principal direct point in time impact on the Group's equity would result from the revaluation of derivative assets and liabilities which are not part of fair value hedges at the balance sheet date. A 1.0% increase in rate expectations would increase equity by £14.1m (2023: increase by £16.0m). For this illustration no ineffectiveness in hedging relationships is assumed.

These calculations allow only for the direct effects of any change in UK interest rates. In practice, such a change might have wider economic consequences which would themselves potentially affect the Group's business and results.

It should be noted that these sensitivities are illustrative only, and much simplified from those used to manage IRRBB in practice.

The Company

All the borrowings of the Company have fixed interest rates. The Company's investments in loans to subsidiary companies include a Tier-2 Bond issued by Paragon Bank PLC, with terms matching the Tier-2 Bond issued by the Company. Its intercompany balance with Paragon Bank (note 27) also includes £107.6m which is placed on deposit with the Bank of England (2023: £193.6m). Interest is received on this balance at the same rate as that paid by the Bank of England. Other assets and liabilities with group entities bear interest at rates based on SONIA. All other balances in the Company balance sheet are non-interest bearing.

Currency risk

Currency risk, also referred to as foreign exchange or forex risk, is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has little appetite for material amounts of exposure to currency risk and applies a hedging strategy for any material open positions through the use of spot or forward contracts or derivatives.

All the Group's significant assets and liabilities at 30 September 2024 and 30 September 2023 are denominated in sterling.

The SME lending business has a limited amount of lending denominated in US dollars, principally £4.4m of aircraft mortgage balances (2023: £7.6m). It may also contract to purchase assets for leasing in currency. These balances are hedged by the purchase of currency derivatives and / or appropriate currency balances.

As a result of these arrangements the Group has no material exposure to foreign currency risk, and no sensitivity analysis is presented for currency risk.

The Group's use of financial derivatives to manage currency risk is described further in note 26.

None of the assets or liabilities of the Company are denominated in foreign currencies.

D2.4 Notes to the Accounts – Basis of preparation

For the year ended 30 September 2024

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

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

66. Basis of preparation

The Group is required, by the Companies Act 2006 and the Listing Rules of the FCA, to prepare its financial statements for the year ended 30 September 2024 in accordance with UK-adopted international accounting standards. In the financial years reported on this also means, in the Group's circumstances, that the financial statements also accord with IFRS as approved by the International Accounting Standards Board.

The particular accounting policies adopted have been set out in note 67 and the critical accounting judgements and estimates which have been required in preparing these financial statements are described in notes 68 and 69 respectively.

The Group has historically chosen to present an additional comparative balance sheet.

Adoption of new and revised reporting standards

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

Change in accounting policy

During the year the directors reviewed the accounting treatment of the ESOP trusts described in note 47. Where previously the trusts had been considered separate entities within the group consolidation it was considered that it was more appropriate to include them as if the assets and liabilities of the trusts were assets and liabilities of the Company.

The principal impact of this is in the inclusion of the shares in the Company held by the ESOP trust with other treasury shares (note 47) and transactions in those shares as transactions of the Company. Therefore, shares purchased by the trust are immediately recognised in 'own shares' in the Company and deducted from its equity in the same way as they are in the consolidated accounts. Previously loans made by the Company to the trust were recognised as assets of the Company and impairment on them charged to profit.

This change has been applied retrospectively, with the restatement increasing the Company's profit after tax for the year ended 30 September 2023 by £8.7m. The corresponding movement impacts reserves in that year. The impact on net assets and operating cash flows is not material.

This change has no effect on the consolidated accounts of the Group.

Standards not yet adopted

IFRS 18

On 9 April 2024 the IASB issued IFRS 18 – 'Presentation and Disclosure in Financial Statements'. This is expected to impact the way in which information is disclosed in financial statements without impacting materially on the underlying accounting.

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

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

67. Accounting policies

The particular policies applied by the Group in preparing these financial statements in accordance with the IFRS regime as adopted in the UK are described below.

(a) Accounting convention

The financial statements have been prepared under the historical cost convention, except as required in the valuation of certain financial instruments which are carried at fair value.

(b) Basis of consolidation

The consolidated financial statements deal with the accounts of the Company and its subsidiaries made up to 30 September 2024. Subsidiaries comprise all those entities over which the Group has control, as defined by IFRS 10 – 'Consolidated Financial Statements'.

In addition to legal subsidiaries, where the Company owns shares in the entity, directly or indirectly, in accordance with IFRS 10, companies owned by charitable trusts into which loans originated by group companies were sold as part of its warehouse and securitisation funding arrangements, where the Group enjoys the benefits of ownership and which, therefore, it is considered to control, are treated as subsidiaries.

A full list of the Group's subsidiaries is set out in note 72, together with further information on the basis on which they are considered to be controlled by the Company. The results of businesses acquired are dealt with in the consolidated accounts from the date of acquisition.

(c) Going concern

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

The directors have adopted this basis following a going concern assessment for the Group and the Company covering a period of at least twelve months following the date of approval of these financial statements. Details of this assessment are set out in note 70.

(d) Acquisitions and goodwill

Goodwill arising from the purchase of subsidiary undertakings, representing the excess of the fair value of the purchase consideration over the fair values of acquired assets, including intangible assets, is held on the balance sheet and reviewed annually to determine whether any impairment has occurred.

As permitted by IFRS 1, the Group has elected not to apply IFRS 3 – 'Business Combinations' to combinations taking place before its transition date to IFRS (1 October 2004). Therefore any goodwill which was written off to reserves under UK GAAP will not be charged or credited to the profit and loss account on any future disposal of the business to which it relates.

Contingent consideration arising on acquisitions is first recognised in the accounts at its fair value at the acquisition date and subsequently revalued at each accounting date until it falls due for payment, or the final amount is otherwise determined.

(e) Cash and cash equivalents

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

(f) Investment in securities

The Group's investments in securities are held as part of its liquidity buffer. They are therefore classified as 'held to collect' following an example set out in IFRS 9. These securities are carried at amortised cost, with income recognised on an effective interest rate ('EIR') basis.

(g) Leases

For leases where the Group is the lessee a right of use asset is recognised in property, plant and equipment on the inception of the lease based on the discounted value of the minimum lease payments at inception. A lease liability of the same amount is recognised at inception, with the unwinding of the discount included in interest payable.

Leases where the Group is lessor are accounted for as operating or finance leases in accordance with IFRS 16 – 'Leases'. A finance lease is one which transfers substantially all of the risks and rewards of the ownership of the asset concerned. Any other lease is an operating lease.

Finance lease receivables are accounted for as loans to customers, with impairment provisions determined in accordance with IFRS 9.

Rental income and costs on operating leases are charged or credited to the profit and loss account on a straight-line basis over the lease term. The associated assets are included within property, plant and equipment. This policy applies both to assets leased to external customers and to vehicles leased to employees under the Group's green car scheme.

(h) Loans to customers

Loans to customers includes assets accounted for as financial assets and finance leases. The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and its business model for managing the asset. The Group has concluded that its business model for its customer loan assets is of the type defined as 'Held to collect' by IFRS 9 and the contractual terms of the asset should give rise to cash flows that are solely payments of principal and interest ('SPPI'). Such loans are therefore accounted for on the amortised cost basis.

Loans advanced are valued at inception at the initial advance amount, which is the fair value at that time, inclusive of procuration fees paid to brokers or other business providers and less initial fees paid by the customer. Loans acquired from third parties are initially valued at the purchase consideration paid or payable. Thereafter, all loans to customers are valued at this initial amount less the cumulative amortisation calculated using the EIR method. The loan balances are then reduced where necessary by an impairment provision.

The EIR method spreads the expected net income arising from a loan over its expected life. The EIR is that rate of interest which, at inception, exactly discounts the future cash payments and receipts arising from the loan to the initial carrying amount.

Where financial assets are credit-impaired at initial recognition the EIR is calculated on the basis of expected future cash receipts allowing for the effect of credit risk. In other cases, the expected contractual cash flows are used.

(i) Finance lease receivables

Finance lease receivables are included within 'Loans to Customers' at the total amount receivable less interest not yet accrued, unamortised commissions and provision for impairment.

Income from finance lease contracts is governed by IFRS 16 – 'Leases' and accounted for on the actuarial basis.

(j) Impairment of loans to customers

The carrying values of all loans to customers, whether accounted for under IFRS 9 or IFRS 16, are reduced by an impairment provision based on their ECL, determined in accordance with IFRS 9. These estimates are reviewed throughout the year and at each balance sheet date.

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

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

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

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

In establishing an ECL allowance, the Group assesses its PD, LGD and exposure at default for each reporting period, discounted to give a net present value. The estimates used in these assessments must be unbiased and take into account reasonable and supportable information including forward-looking economic inputs.

While the Group uses statistical models as the basis for its calculation of ECLs where appropriate, expert judgement will always be used to assess the adequacy of any calculated amount and additional provision made if required.

Within its buy-to-let portfolio the Group utilises a receiver of rent process, whereby the receiver stands between the landlord and tenant and will determine an appropriate strategy for dealing with any delinquency. This strategy may involve the immediate sale of any underlying security or the short or long term letting of the property to cover arrears and principal shortfalls. Such cases are automatically considered to have an SICR, but where a letting strategy is adopted by the receiver and a tenant is in place, arrears may be reduced or cleared. Properties in receivership are eventually either returned to their landlord owners or sold.

For loan portfolios acquired at a discount, the discounts take account of future expected impairments, and credit impaired assets in those portfolios are treated as POCI. For these assets, the Group recognises all changes in future cash flows arising from changes in credit quality since initial recognition as a loss allowance with any changes recognised in profit or loss.

For financial accounting purposes, provisions for impairments of loans to customers are held in an impairment allowance account from the point at which they are first recognised. These balances are released to offset against the gross value of the loan when it is written off for accounting purposes. This occurs when standard enforcement processes have been completed, subject to any amount retained in respect of expected salvage receipts. Any further gains from post-write off salvage activity are reported as impairment gains.

(k) Amounts owed by or to group companies

In the accounts of the Company, balances owed by or to other group companies are carried at the current amount outstanding less any provision. Where balances owing between group companies fall within the definition of either financial assets or financial liabilities given in IAS 32 – 'Financial Instruments: Presentation' they are classified as assets or liabilities at amortised cost, as defined by IFRS 9.

(l) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Assets held for letting under operating leases are depreciated in equal annual instalments to their estimated residual value over the life of the related lease. Vehicles held for short term hire are depreciated in equal annual instalments to their estimated residual value over their expected useful life. This depreciation is deducted in arriving at net lease income and is shown in note 6.

The assets' residual values and useful lives are reviewed by management and adjusted, if appropriate, at each balance sheet date.

Depreciation on operating assets is provided on cost in equal annual instalments over the lives of the assets. Land is not depreciated. The rates of depreciation are as follows:

Freehold premises	Short leasehold premises	Computer hardware	Furniture, fixtures and office equipment	Company motor vehicles
2% per annum	over the term of the lease	25% per annum	15% per annum	25% per annum

Depreciation on right of use assets recognised in accordance with IFRS 16 is provided on a straight line basis over the term of the lease.

(m) Intangible assets

Intangible assets comprise purchased computer software and other intangible assets acquired in business combinations.

Purchased computer software is capitalised where it has a sufficiently enduring nature and is stated at cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 25% per annum.

Other intangible assets acquired in business combinations include brands and business networks and are capitalised in accordance with the requirements of IFRS 3 – 'Business Combinations'. Such assets are stated at attributed cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate determined at the point of acquisition.

(n) Investments in subsidiaries

The Company's investments in subsidiary undertakings are valued at cost less provision for impairment. Impairment is determined based on the net asset values of subsidiary entities after provision for inter company balances and investments at the subsidiary level.

(o) ESOP trusts

Where trusts have been set up to hold shares in the Company in conjunction with the Group's employee share ownership arrangements, the assets, liabilities and transactions of those trusts are accounted for within the accounts of the Company.

(p) Own shares

Shares in Paragon Banking Group PLC held in treasury or by the trustee of the Group's employee share ownership plan are shown on the balance sheet as a deduction in arriving at total equity. Own shares are stated at cost.

Any shortfall on disposal of such shares is offset against retained earnings. Any excess of disposal proceeds over cost is added to the share premium account. Where an irrevocable instruction for the purchase of such shares has been given, it is treated as a reduction in capital from the point at which the instruction becomes irrevocable.

(q) Retail deposits

Retail deposits are carried in the balance sheet on the amortised cost basis. The initial fair value recognised represents the cash amount received from the customer.

Interest payable to the customer is expensed to the statement of profit or loss as interest payable over the deposit term on an EIR basis.

(r) Borrowings

Borrowings from external third parties are carried in the balance sheet on the amortised cost basis. The initial value recognised includes the principal amount received less any discount on issue or costs of issuance. Interest and all other costs of the funding are expensed to the statement of profit or loss as interest payable over the term of the borrowing on an EIR basis.

(s) Central bank facilities

Where central bank facilities are provided at a below market rate of interest, and therefore fall within the definition of government assistance as defined by IAS 20 – 'Accounting for Government Grants and Disclosure of Government Assistance', the liability is initially recognised at the value of its expected cash flows discounted at a market rate of interest for a comparable commercial borrowing. Interest is recognised on this liability on an EIR basis, using the imputed market rate to determine the EIR.

The remaining amount of the advance is recognised as deferred government assistance and released to the profit and loss account through interest payable over the periods during which the arrangement affects profit.

(t) Sale and repurchase agreements

Securities, including the Group's own retained asset-backed notes, can be sold subject to a commitment to repurchase them at a subsequent date at a price calculated on a pre-determined basis (a repo). Where this price comprises a fixed amount plus a lenders return, the funds received are treated as borrowings of the Group.

Where the securities concerned are retained notes no liability is recognised in asset-backed loan notes and where the securities are recognised on the Group's balance sheet prior to the transaction, these are not derecognised.

The difference between the sale and purchase price is accrued over the life of the agreement using the EIR method.

(u) Derivative financial instruments

All derivative financial instruments are carried in the balance sheet at fair value, as assets where the value is positive or as liabilities where the value is negative. Fair value is based on market prices, where a market exists. If there is no active market, fair value is calculated using present value models which incorporate assumptions based on market conditions and are consistent with accepted economic methodologies for pricing financial instruments. Changes in the fair value of derivatives are recognised in the statement of profit or loss.

(v) Hedging

IFRS 9 paragraph 7.2.21 permits an entity to elect, as a matter of accounting policy, to continue to apply the hedge accounting requirements of IAS 39 in place of those set out in Chapter 6 of IFRS 9. The Group has made this election, and the accounting policy below has been determined in accordance with IAS 39.

For all hedges, the Group documents the relationship between the hedging instruments and the hedged items at inception, as well as its risk management strategy and objectives for undertaking the transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging arrangements put in place are considered to be 'highly effective' as defined by IAS 39. For a fair value hedge, as long as the hedging relationship is deemed 'highly effective' and meets the hedging requirements of IAS 39, any gain or loss on the hedging instrument recognised in income can be offset against the fair value loss or gain arising from the hedged item for the hedged risk. For macro hedges (hedges of interest rate risk for a portfolio of loan assets or retail deposit liabilities) this fair value adjustment is disclosed in the balance sheet alongside the hedged item, for other hedges the adjustment is made to the carrying value of the hedged asset or liability. Only the net ineffectiveness of the hedge is charged or credited to income. Where a fair value hedge relationship is terminated, or deemed ineffective, the fair value adjustment is amortised over the remaining term of the underlying item.

(w) Taxation

The charge for taxation represents the expected UK corporation tax (including the Bank Corporation Tax Surcharge where applicable) and other income taxes arising from the Group's profit for the year. This consists of the current tax which will be shown in tax returns for the year and tax deferred because of temporary differences. This in general, represents the tax impact of items recorded in the current year but which will impact tax returns for periods other than the one in which they are included in the financial statements.

The Group will hold a provision for any uncertain tax positions at the balance sheet date based on a global assessment of the expected amount that will ultimately be payable.

Tax relating to items taken directly to equity is also taken directly to equity.

(x) Deferred taxation

Deferred taxation is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered. As required by IAS 12 – 'Income Taxes', deferred tax assets and liabilities are not discounted to take account of the expected timing of realisation.

(y) Retirement benefit obligations

The expected cost of providing pensions within the funded defined benefit scheme, determined on the basis of annual valuations by professionally qualified actuaries using the projected unit method, is charged to the statement of profit or loss. Actuarial gains and losses are recognised in full in the period in which they occur and do not form part of the result for the period, being recognised in the Statement of Comprehensive Income.

The retirement benefit obligation asset recognised in the balance sheet represents the excess of the fair value of the scheme assets over the present value of the defined benefit obligation.

The expected finance income from the surplus, as estimated at the beginning of the period is recognised in the result for the period within interest receivable. Any variances against the estimated amount in the year form part of the actuarial gain or loss.

The charge to the income statement for providing pensions under defined contribution pension schemes is equal to the contributions payable to such schemes for the year.

(z) Revenue

The revenue of the Group comprises interest receivable and similar charges, operating lease income and other income. The accounting policy for the recognition of each element of revenue is described separately within these accounting policies.

(aa) Other income

Other income, which is accounted for in accordance with IFRS 15, includes:

- Event-based administration fees charged to borrowers (other than the initial fees included in amortised cost), which are credited when the related service is performed
- Fees charged to third parties for account administration services, which are credited as those services are performed
- Commissions receivable on the sale of insurances, as agent of the third-party insurer, which are taken to profit at the point at which the Group becomes unconditionally entitled to the income
- Maintenance income charged as part of the Group's contract hire arrangements which is recognised as the services are provided. Costs of these services are deducted in other income
- Broker fees receivable on the arrangement of loans funded by third parties, on an agency basis, which are taken to profit at the point of completion of the related loan

(bb) Share based payments

In accordance with IFRS 2 – 'Share-based Payments', the fair value at the date of grant of awards to be made in respect of options and shares granted under the terms of the Group's various share based employee incentive arrangements is charged to the statement of profit or loss account over the period between the date of grant and the vesting date.

National Insurance on share based payments is accrued over the vesting period, based on the share price at the balance sheet date.

Where the allowable cost of share based awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to reserves.

(cc) Dividends

In accordance with IAS 10 – 'Events after the balance sheet date', dividends payable on ordinary shares are recognised in equity once they are appropriately authorised and are no longer at the discretion of the Company. Dividends declared after the balance sheet date, but before the authorisation of the financial statements remain within shareholders' funds.

However, such dividends are deducted from regulatory capital from the point at which they are announced, and capital disclosures are prepared on this basis.

(dd) Foreign currency

Foreign currency transactions, assets and liabilities are accounted for in accordance with IAS 21 – 'The Effects of Changes in Foreign Exchange Rates'. The functional currency of the Company and all of the other entities in the Group is the pound sterling. Transactions which are not denominated in sterling are translated into sterling at the spot rate of exchange on the date of transaction. Monetary assets and liabilities which are not denominated in sterling are translated at the closing rate on the balance sheet date.

Gains and losses on retranslation are included in interest payable or interest receivable depending on whether the underlying instrument is an asset or a liability.

(ee) Segmental reporting

The accounting policies of the segments are the same as those described above for the Group as a whole. Interest payable by each segment includes directly attributable funding and the allocated cost of retail deposit funds utilised. Attributable hedging transactions are also included in segment results. Costs attributed to each segment represent the direct costs incurred by the segment operations.

68. Critical accounting judgements

The most significant judgements which the directors have made in the application of the accounting policies set out in note 67 relate to:

(a) Significant Increase in Credit Risk ('SICR')

Under IFRS 9, the directors are required to assess where a credit obligation has suffered a Significant Increase in Credit Risk ('SICR'). The directors' assessment is based primarily on changes in the calculated PD, but also includes consideration of other qualitative indicators and the adoption of the backstop assumption in the Standard that all cases which are more than 30 days overdue have an SICR, for account types where days overdue is an appropriate measure.

As part of its consideration of the adequacy of its impairment provisioning, management have considered whether there are any factors not reflected in its normal approach which indicate that a group, or groups of accounts should be considered as having an SICR. No such accounts were identified.

If additional accounts were determined to have an SICR, these balances would attract additional impairment provision, as such cases are provided on the basis of lifetime expected loss, rather the 12-month expected loss, and the overall provision charge would be higher. Conversely, if cases are incorrectly identified as SICR, impairment provisions will be overstated. Furthermore, adjustments to current PD estimates in the Group's models may also have the effect of identifying more or less accounts as having an SICR.

More information on the definition of SICR adopted is given in note 21.

(b) Definition of default

In applying the impairment provisions of IFRS 9, the directors have used models to derive the probabilities of default. In order to derive and apply such models, it is required to define 'default' for this purpose. The Group's definition of default is aligned to its internal operational procedures. IFRS 9 provides a rebuttable presumption of default when an account is 90 days overdue, and this was used as the starting point for this exercise. Other factors include account management activities such as appointment of a receiver, internal grading processes or enforcement procedures.

A combination of qualitative and quantitative measures was considered in developing the definition of default.

If a different definition of default had been adopted the expected loss amounts derived might differ from those shown in the accounts.

More information on the Group's definition of default adopted is given in note 21.

(c) Classification of financial assets

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

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

Financial assets are classified as held at amortised cost, at fair value through OCI, or at fair value through profit and loss.

For an asset to be held at amortised cost, the cash flows received from it must comprise solely payments of principal and interest ('SPPI'). In effect, this restricts this classification to 'normal' lending activities, excluding arrangements where the lender may have a contingent return or profit share from the activities funded. The Group has considered its products and concluded that, as standard lending products, they fall within the SPPI criteria.

This is because all the Group's lending arrangements involve the advancing of amounts to customers, either as loans or finance lease products and the receipt of repayments of principal and charges, where those charges are calculated based on the amount loaned. There are no 'success fee' or other compensation arrangements not linked to the loan principal.

The use of amortised cost accounting is also restricted to assets which a company holds within a business model whose object is to collect cash flows arising from them, rather than seek to profit by disposing of them (a 'Held to Collect' model). The Group's strategy is to hold loan assets until they are repaid or written off. Loan disposals are rare, and the Group does not manage its assets in order to generate profits on sale. On this basis, it has categorised its business model as Held to Collect.

Therefore, the Group has classified its customer loan assets as carried at amortised cost. There were no significant changes in the nature of the Group's products, nor in the business models in which they are held, during the year.

69. Critical accounting estimates

Certain balances reported in the financial statements are based wholly or in part on estimates or assumptions made by the directors. There is, therefore, a potential risk that they may be subject to change in future periods. The most important of these, those which could, if revised significantly in the next financial year, have a material impact on the carrying amounts of assets or liabilities are:

(a) Impairment losses on loans to customers

Impairment losses for the majority of loans are calculated based on statistical models, applied to the present status, performance and management strategy for the loans concerned, which are used to determine each loan's PD and LGD.

Internal information used will include number of months arrears, qualitative information, such as possession by a first charge holder on a second charge mortgage or, where a buy-to-let case is under the control of a receiver of rent, the receiver's present and likely future strategy for the property (which might include keeping current tenants in place, refurbish and relet, immediate sale, etc).

External information used includes customer specific data, such as credit bureau information as well as more general economic data.

Key internal assumptions in the models relate to estimates of future cash flows from customers' accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property or other charged assets. These cash flows will include payments received from the customer, and, for buy-to-let cases where a receiver of rent is appointed, rental receipts from tenants, after allowing for void periods and running costs. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

In addition, the directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect current and expected conditions.

In evaluating the potential impact of the economic situation at 30 September 2024 there is little recent history against which to benchmark likely customer behaviour. Interest rates in the UK increased rapidly in the preceding year and have remained at elevated levels throughout the period. The UK base rate remained at 5.25% throughout most of the period, a level it had not touched since April 2008, since when significant regulatory intervention in the UK's lending markets has taken place. There have also been significant changes in product structures in that period, including the growth of longer term fixed-rate mortgage lending in recent years. All these factors make the historical record of behaviours in higher interest rate environments an uncertain guide to the likely impact of current rate levels.

There is also some disagreement among economic forecasters as to the future direction of the UK economy, exacerbated by uncertainties as to the impact of the policies of the new UK Government. At the same time, the level to which economic pressures on customers have yet to manifest themselves in credit metrics is still unclear, with credit performance across the markets in which the Group is active being better than some expected over the past two years. However, considerable uncertainty exists as to whether this represents a more benign outcome, or merely a delay in credit issues emerging beyond what was anticipated. Together, these factors make forecasting credit behaviour in current conditions challenging.

The accuracy of the impairment calculations would be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes. In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the model, then the number of accounts requiring provision might be greater than suggested by the model, while falls in house prices, over and above any assumed by the models might increase the provision required in respect of accounts currently provided. Similarly, if the account management approach assumed in the modelling cannot be adopted the provision required may be different.

In order to provide forward-looking economic inputs to the modelling of the ECL, the Group must derive a set of scenarios which are internally coherent. The Group addresses these requirements using four distinct economic scenarios chosen to represent the range of possible outcomes. These scenarios at 30 September 2024 have been derived in light of the current economic situation modelling a variety of possible outcomes as described in note 24.

As noted above, there remains a significant range of different opinions amongst economists about the longer-term prospects for the UK, and although these have converged, to some extent, over recent months, the medium-term uncertainty over the direction and impact of UK economic policy under the new administration adds inherent complexity to any forecasting exercise.

The variables are used for two purposes in the IFRS 9 calculations:

- They are applied as inputs in the models which generate PD values, where those found by statistical analysis to have the most predictive value are used
- They are used as part of the calculation where the variable has a direct impact on the expected loss calculation, such as the HPI

The economic variables will also inform assumptions about the Group's approach to account management given a particular scenario.

In addition to uncertainty represented by the economic scenarios, the Group recognises that economic situations can arise which lie outside the range of potential positions considered as a basis for its IFRS 9 approach to impairment when the current models were built. The current forecast scenarios, which include higher rates of interest and inflation than in the historically observed data, represent situations where these models may not be able to fully allow for potential economic impacts on the loan portfolios. The Group therefore assessed, for each class of asset, whether any adjustment to the normal approach was required to ensure sufficient provision was created by the models. It also reviewed other available data, both from account performance and customer feedback to form a view of the underlying reasons for observed customer behaviours and of their future intentions and prospects.

As a result of this exercise additional requirements for provision were identified, to compensate for potential model weakness and to allow for economic pressures in the wider economy which cannot be identified by a modelled approach. By their nature such adjustments are less systematic and therefore subject to a wider range of outturns. The nature and amounts of these judgemental adjustments are set out in note 21.

The position after considering all these matters is set out in notes 21 to 23, together with further information on the Group's approach. The economic scenarios described above and their impact on the overall provision are set out in note 24, while sensitivity analyses on impairment provisioning are set out in note 25.

(b) Effective interest rates

In order to determine the EIR applicable to loans and borrowings an estimate must be made of the expected life of each asset or liability and the cash flows relating thereto, including those relating to early redemption charges together with any initial fees receivable from the customer or procurement fees payable to a mortgage broker or other introducer.

Where an account may have differing interest charging arrangements in different phases of its contractual life, such as the Group's buy-to-let mortgage accounts which have a fixed interest rate for a set period and then revert to a variable rate set by the Group (the 'reversionary rate'), the behavioural life and the expected level of the reversionary rate will have a significant impact on the overall EIR. For each portfolio a model is in place to ensure that income is appropriately spread.

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

For loans which have a fixed-rate period, the length of that period will have a significant behavioural impact, with many customers choosing to consider their positions at the point at which the fixed rate expires, influenced by the market conditions then prevailing. The forecast future choices of customers currently on fixed-rate products at this point therefore has a significant impact on the EIR modelling for these assets.

Where loans are more likely to run to contractual term, and interest rates are less likely to vary over that term, as is the case for the majority of the Group's motor finance and asset-backed SME lending, the determination of an EIR model is less judgemental, and reflects principally the spreading of known fees and commissions.

The Group models lives for each of its asset classes, based on its current expectation of future borrower behaviour, and uses these profiles, together with its expectations of future reversionary interest rates, to determine the correct EIR to be applied to each account. The underlying estimates are based on historical data, adjusted for expected changes, and reviewed regularly. The accuracy of the EIR applied would therefore be compromised by any differences between actual repayment profiles and charging rates and those predicted, which in turn would depend directly on customer behaviour and market conditions.

The Group therefore keeps its models under review and refines its modelling in the light of any emerging deviations from expected behaviour. These are particularly likely where the current or expected economic environment differs from historic scenarios for which relevant data observations are available. This is currently the case, with market mortgage rates at far higher levels than have been seen in many years, but beginning to fall. In such cases management consider carefully the impacts which any new conditions may have on customer behaviour and reversionary rates and reflect them in the model as appropriate, revisiting these assumptions regularly as observable data becomes available, with a detailed exercise to analyse any emerging themes taking place every six months as part of the half-year and year-end results processes.

The application of these estimates results in an overall decrease in the carrying value of the Group's loans to customers, including POCI accounts, at 30 September 2024 of £4.4m (2023: increase of £20.5m).

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

- Currently the average behavioural life used in the buy-to-let modelling for non-legacy assets, which have an average fixed period of 48 months (2023: 49 months), was 80 months (2023: 83 months).

  A reduction of the assumed average lives of all loans secured on residential property by three months would reduce balance sheet assets by £9.3m (2023: £9.3m), while an increase of the assumed asset lives of such assets by three months would increase balance sheet assets by £9.1m (2023: £9.2m). £8.9m of the increase (2023: £8.8m) and £9.1m of the decrease (2023: £8.8m) related to non-legacy buy-to-let assets.

  A reduction of the assumed average lives of all loans secured on residential property by six months would reduce balance sheet assets by £18.5m (2023: £18.5m), while an increase of the assumed asset lives of such assets by six months would increase balance sheet assets by £17.5m (2023: £18.4m). £17.2m of the increase (2023: £17.5m) and £18.2m of the decrease (2023: £17.5m) related to non-legacy buy-to-let assets.

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

  If it was assumed that the maximum reversionary rate which could be charged in future was 6.00%, then the value of the non-legacy buy-to-let loan book would be decreased by £12.3m (2023: decrease by £3.0m).

  If it was assumed that the maximum reversionary rate which could be charged in future was 8.00%, then the value of the non-legacy buy-to-let loan book would be increased by £26.1m (2023: increase by £3.9m).

- Where fixed rate buy-to-let assets redeem before the end of their fixed rate period, an early redemption charge is made, and an estimate for the impact of these charges must be included in the EIR calculation.

  An increase of 50% in the number of five year fixed rate buy-to-let loan assets assumed to redeem before the end of the fixed rate period would increase balance sheet assets by £9.9m (2023: £9.6m).

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

(c) Impairment of goodwill

The carrying value of goodwill recognised on acquisitions is verified by use of an impairment test based on the projected cash flows for the CGU, based on management forecasts and other assumptions described in note 31, including a discount factor.

The accuracy of this impairment calculation would therefore be compromised by any differences between these forecasts and the levels of business activity that the CGU is able to achieve in practice. As the Group forecasts are based on the Group's central economic scenario, any variance from this will potentially impact on the valuation. This test will also be affected by the accuracy of the discount factor used.

The sensitivity of the impairment test to reasonably possible movements in these assumptions is discussed in note 31.

(d) Retirement benefits

The present value of the retirement benefit obligation is derived from an actuarial calculation which rests on a number of assumptions relating to inflation, long-term return on investments and mortality. These are listed in note 60. Where actual conditions differ from those assumed the ultimate value of the obligation would be different.

Information on the sensitivity of the valuation to the various assumptions is given in note 60.

70. Going concern

Accounting standards require the directors to assess the Group's ability to continue to adopt the going concern basis of accounting. In performing this assessment, the directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them, having regard to the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council in September 2014.

Particular focus is given to the Group's financial forecasts to ensure the adequacy of resources, including liquidity and capital, available for the Group to meet its business objectives on both a short-term and strategic basis. The guidance requires that this assessment covers a period of at least twelve months from the date of approval of these financial statements.

Financial and capital forecasting

The Group has a formalised process of budgeting, reporting and review. The Group's planning procedures forecast its profitability, capital position, including its regulatory capital position, funding requirement and cash flows. Detailed plans are produced for two year periods with longer-term forecasts covering a five year period, including detailed income forecasts. These plans provide information to the directors which is used to ensure the adequacy of resources available for the Group to meet its business objectives, both on a short-term and strategic basis.

The forecast is updated every six months, and the directors have based their going concern assessment on the forecast for the period beginning on 1 October 2024.

The Group makes extensive use of stress testing in compiling and reviewing its forecasts. This stress testing approach was reviewed in detail during the year as part of the annual Internal Capital Adequacy Assessment Process ('ICAAP') cycle, where testing considered the impact of a number of severe but plausible scenarios. During the planning process, sensitivity analysis was carried out on a number of key assumptions that underpin the forecast to evaluate the impact of the Group's principal risks.

The key stresses modelled in detail to evaluate the forecast were:

- An increase in buy-to-let volumes. This examined the impact of higher volumes at a reduced yield on profitability and illustrated the extent to which capital resources and liquidity would be stretched due to the higher cash and capital requirements
- Higher funding costs. Higher cost on all new savings deposits, both front book and back book throughout the forecast horizon. This scenario illustrates the impact of a significant, prolonged margin squeeze on profitability, and whether this would cause significant impacts on any capital, liquidity or encumbrance ratios
- Higher buy-to-let redemption rates for buy-to-let mortgages reaching the end of their fixed rate period. This illustrates the potential risk inherent in the five-year fixed rate business
- Reduced development finance volumes and yield. This replicates a significant increase in competition within the sector, reducing yields and impacting market share, demonstrating how a lower mix of the Group's highest margin product impacts on contribution to costs and other profitability ratios
- Increased economic stress on customers. As well as modelling the impact of each of the economic scenarios set out in note 24 across the forecast horizon, the severe economic scenario was also modelled over the five-year horizon. To ensure this represented a worst-case scenario all other assumptions were held steady, although in reality adjustments to new business appetite and other factors would be made
- Combined downside stress. The IFRS 9 downside economic scenario described in note 24 was modelled out for the plan horizon along with a plausible set of other adverse factors to the business model, creating a prolonged tail-risk

These stresses did not take account of management actions which might mitigate the impact of the adverse assumptions used. They were designed to demonstrate how such stresses would affect the Group's financing, capital and liquidity positions and highlight any areas which might impact the Group's going concern status. Under all these scenarios, the Group was able to meet its obligations over the forecast horizon and maintain a surplus over its regulatory requirements for both capital and liquidity through normal balance sheet management activities.

As part of the ICAAP process the Group also assessed the potential operational risks it could face. This was done through the analysis of the impact and cost of a series of severe but plausible scenarios. This analysis did not highlight any factors which cast doubt on the Group's ability to continue as a going concern.

The Group begins the forecast period with a strong capital and liquidity position, enabling the management of any significant outflows of deposits and / or reduced inflows from customer receipts. Overall the forecasts, even under reasonable further levels of stress show the Group retaining sufficient equity, capital, cash and liquidity throughout the forecast period to satisfy its regulatory and operational requirements.

Availability of funding and liquidity

The availability of funding and liquidity is a key consideration, including retail deposit, wholesale funding, central bank and other contingent liquidity options.

The Group's retail deposits of £16,298.0m (note 33), raised through Paragon Bank, are repayable within five years, with 87.0% of this balance (£14,180.4m) payable within twelve months of the balance sheet date. The liquidity exposure represented by these deposits is closely monitored; a process supervised by the ALCO. The Group is required to hold liquid assets in Paragon Bank to mitigate this liquidity risk. At 30 September 2024 Paragon Bank held £2,635.3m of balance sheet assets for liquidity purposes, in the form of central bank deposits and investment securities (note 64). A further £150.0m of liquidity was provided by the off balance sheet long / short transaction described in note 64, bringing the total to £2,785.3m.

Paragon Bank manages its liquidity in line with the Board's risk appetite and the requirements of the PRA, which are formally documented in the Board's approved Individual Liquidity Adequacy Assessment Process ('ILAAP'), updated annually. The Bank maintains a liquidity framework that includes a short to medium-term cash flow requirement analysis, a longer-term funding plan and access to the Bank of England's liquidity insurance facilities, where pre-positioned assets would support further drawings of £4,445.9m (2023: £1,715.4m). Holdings of the Group's own externally rated mortgage backed loan notes can also be used to access the Bank of England's liquidity facilities or other funding arrangements. At 30 September 2024 the Group had £1,797.2m (2023: £1,205.6m) of such notes available for use, of which £1,536.2m (2023: £986.9m) were rated AAA. The available AAA notes would give access to £751.9m (2023: £769.8m) if used to support drawings on Bank of England facilities.

The earliest maturity of any of the Group's wholesale debt is the central bank debt payable in 2025.

The Group's access to debt is enhanced by its corporate BBB+ rating, confirmed by Fitch Ratings in February 2024, and its status as an issuer is evidenced by the BBB- investment grade rating of its £150.0m Tier-2 Bond.

Additionally, during the year Fitch Ratings assigned a BBB+ Long-term Issuer Default rating to Paragon Bank PLC, the Group's principal operating subsidiary, the first time a company-level rating has been issued for this entity. This provides additional flexibility to the Group's wholesale funding options.

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

The Group's cash analysis, which includes the impact of all scheduled debt and deposit repayments, continues to show a strong position, even after allowing scope for significant discretionary payments and capital distributions.

As described in note 61 the Group's capital base is subject to consolidated supervision by the PRA. Its capital at 30 September 2024 was in excess of regulatory requirements and its forecasts indicate this will continue to be the case, even allowing for currently proposed changes in the UK's capital requirements framework.

Going concern assessment

In order to assess the appropriateness of the going concern basis, the directors considered the Group's financial position, the cash flow requirements laid out in its forecasts, its access to funding, the assumptions underlying the forecasts and potential risks affecting them. As part of this exercise, the potential impacts on funding, capital and cash of the contingent liabilities described in note 43 were considered.

After performing this assessment, the directors concluded that there was no material uncertainty as to whether the Group and the Company would be able to maintain adequate capital and liquidity for at least twelve months following the date of approval of these financial statements and consequently that it was appropriate for them to continue to adopt the going concern basis in preparing the financial statements of the Group and the Company.

71. Financial assets and financial liabilities

The Group's financial assets and financial liabilities are valued on one of two bases, defined by IFRS 9:

- Financial assets and liabilities carried at fair value through profit and loss ('FVTPL')
- Financial assets and liabilities carried at amortised cost

IFRS 7 – 'Financial Instruments: Disclosures' requires that where assets are measured at fair value these measurements should be classified using the fair value hierarchy set out in IFRS 13 – 'Fair Value Measurement'. This hierarchy reflects the inputs used and defines three levels:

- Level 1 measurements are unadjusted market prices
- Level 2 measurements are derived from directly or indirectly observable data, such as market prices or rates
- Level 3 measurements rely on significant inputs which are not derived from observable data

As quoted prices are not available for level 2 and 3 measurements, the valuation is derived from cash flow models based, where possible, on independently sourced parameters. The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of the models, or the assumptions used.

The Group had no financial assets or liabilities at 30 September 2024 or 30 September 2023 carried at fair value and valued using level 3 measurements.

The Group has not reclassified any of its measurements during the year.

The methods by which fair value is established for each class of financial assets and liabilities are set out below.

(a) Assets and liabilities carried at fair value

The following table summarises the Group's financial assets and liabilities which are carried at fair value.

	Note	**2024**	2023
		£m	£m
Financial assets			
Derivative financial assets	*26*	**391.8**	615.4
Financial liabilities			
Derivative financial liabilities	*26*	**99.7**	39.9

All of these financial assets and financial liabilities are required to be carried at fair value by IFRS 9.

The Company has no financial assets or liabilities carried at fair value.

Derivative financial assets and liabilities

Derivative financial instruments are stated at their fair values in the accounts. The Group uses a number of techniques to determine the fair values of its derivative assets and liabilities, for which observable prices in active markets are not available. These are principally present value calculations based on estimated future cash flows arising from the instruments, discounted using a market interest rate, adjusted for risk as appropriate. The principal inputs to these valuation models are SONIA sterling benchmark interest rates.

In order to determine the fair values, the management applies valuation adjustments to observed data where that data would not fully reflect the attributes of the instrument being valued, such as particular contractual features or the identity of the counterparty. The management reviews the models used on an ongoing basis to ensure that the valuations produced are reasonable and reflect all relevant factors. These valuations are based on market information, and they are therefore classified as level 2 measurements. Details of these assets are given in note 26.

(b) Assets and liabilities carried at amortised cost

The fair values for financial assets and financial liabilities held at amortised cost, determined in accordance with the methodologies set out below are summarised below.

	Note	**2024**	**2024**	2023	2023
		Carrying amount	**Fair value**	Carrying amount	Fair value
		£m	**£m**	£m	£m
The Group					
Financial assets					
Cash	*16*	**2,525.4**	**2,525.4**	2,994.3	2,994.3
Investment securities	*17*	**427.4**	**422.0**	-	-
Loans to customers	*18*	**15,705.5**	**15,772.5**	14,874.3	14,524.0
Sundry financial assets	*27*	**15.8**	**15.8**	46.0	46.0
		18,674.1	**18,735.7**	17,914.6	17,564.3
Financial liabilities					
Short-term bank borrowings		**0.4**	**0.4**	0.2	0.2
Asset backed loan notes		-	-	28.0	28.0
Retail deposits	*33*	**16,298.0**	**16,334.2**	13,265.3	13,177.3
Corporate and retail bonds		**149.9**	**145.5**	258.2	234.8
Sale and repurchase agreements	*39*	**100.0**	**100.0**	50.0	50.0
Other financial liabilities	*40*	**398.1**	**398.1**	608.8	608.8
		16,946.4	**16,978.2**	14,210.5	14,099.1

	Note	**2024**	**2024**	2023 (restated)	2023 (restated)
		Carrying amount	**Fair value**	Carrying amount	Fair value
		£m	**£m**	£m	£m
The Company					
Financial assets					
Cash	*16*	**18.3**	**18.3**	28.1	28.1
Intra-group cash deposits	*27*	**107.6**	**107.6**	193.6	193.6
Amounts owed to group companies	*27*	**20.9**	**20.9**	35.0	35.0
Sundry financial assets	*27*	**0.1**	**0.1**	0.1	0.1
		146.9	**146.9**	256.8	256.8
Financial liabilities					
Corporate and retail bonds		**149.6**	**145.5**	261.8	234.8
Amounts owed by group companies	*40*	**23.6**	**23.6**	24.0	24.0
Other financial liabilities	*40*	**25.4**	**25.4**	0.7	0.7
		198.6	**194.5**	286.5	259.5

The fair values of retail deposits and corporate and retail bonds shown above will include amounts for the related accrued interest.

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

The fair values of cash and cash equivalents, sale and repurchase agreements, bank borrowings and asset-backed loan notes, which are carried at amortised cost are considered to be not materially different from their book values. In arriving at that conclusion market inputs have been considered but because all the assets and the sale and repurchase agreements mature within three months of the year end and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises. This also applies to the parent company's loans to its subsidiaries.

While the Group's asset-backed loan notes are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it.

As these valuation exercises are not wholly market-based, they are considered to be level 2 measurements.

Investment securities

The Group's investment securities are of types for which a liquid market exists, and for which quoted prices are available. It is therefore appropriate to consider that the market price of these assets constitutes a fair value. As this valuation is based on a market price it is considered to be a level 1 measurement.

Loans to customers

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

Corporate debt

The Group's retail and corporate bonds are listed on the London Stock Exchange and there is presently a reasonably liquid market in the instruments. It is therefore appropriate to consider that the market price of these borrowings constitutes a fair value. As this valuation is based on a market price, it is considered to be a level 1 measurement.

Retail deposits

To assess the likely fair value of the Group's retail deposit liabilities, the directors have considered the estimated cash flows expected to arise based on a mixture of market based inputs, such as rates and pricing and non-market based inputs such as withdrawal rates. Given the mixture of observable and non-observable inputs, these are considered to be level 3 measurements.

Sundry assets and liabilities

Fair values of financial assets and liabilities disclosed as sundry assets and sundry liabilities are not considered to be materially different to their carrying values.

These assets and liabilities are of relatively low value and may be settled at their carrying value at the balance sheet date or shortly thereafter.

72. Details of subsidiary undertakings

Subsidiary undertakings of the Group at 30 September 2024, where the share capital is held within the Group are shown below. The holdings shown are those held within the Group. The shareholdings of the Company in the direct subsidiaries listed below are the same as those held by the Group, except that for the shareholdings marked * the Company holds only 74% of the share capital. In these cases, the remainder is held by other group companies.

The issued share capital of all subsidiaries consists of ordinary share capital.

Company	Holding	Principal activity
Direct subsidiaries of Paragon Banking Group PLC		
Paragon Bank PLC	100%	Deposit taking, residential mortgages and loan and vehicle finance
Paragon Car Finance Limited	100%	Vehicle Finance
Idem Capital Holdings Limited	100%	Intermediate holding company
Redbrick Survey and Valuation Limited	100%	Surveyors and property consulting
Paragon Mortgages (No. 12) PLC	100% *	Residential mortgages
Colonial Finance (UK) Limited	100%	Non-trading
Earlswood Finance Limited	100%	Non-trading
Herbert (1) PLC	100%	Non-trading
Herbert (2) PLC	100%	Non-trading
Herbert (4) PLC	100%	Non-trading
Herbert (5) PLC	100%	Non-trading
Herbert (6) PLC	100%	Non-trading
Herbert (7) PLC	100%	Non-trading
Herbert (8) PLC	100%	Non-trading
Herbert (9) PLC	100%	Non-trading
Herbert (10) PLC	100%	Non-trading
Moorgate Asset Administration Limited	100%	Non-trading
Paragon Car Finance (1) Limited	100%	Non-trading
Paragon Dealer Finance Limited	100%	Non-trading
Paragon Loan Finance (No. 3) Limited	100%	Non-trading
Paragon Mortgages (No. 5) PLC	100%	Non-trading
Paragon Pension Investments GP Limited	100%	Non-trading
Paragon Pension Plan Trustees Limited	100%	Non-trading
Paragon Personal Finance (1) Limited	100%	Non-trading
Paragon Third Funding Limited	100%	Non-trading
Paragon Vehicle Contracts Limited	100%	Non-trading
The Business Mortgage Company Limited	100%	Non-trading
Universal Credit Limited	100%	Non-trading
Yorkshire Freeholds Limited	100%	Non-trading
Yorkshire Leaseholds Limited	100%	Non-trading

Company	Holding	Principal activity
Direct and indirect subsidiaries of Paragon Bank PLC		
Paragon Finance PLC	100%	Residential mortgages and asset administration
Mortgage Trust Limited	100%	Residential mortgages
Paragon Mortgages Limited	100%	Residential mortgages
Paragon Mortgages (2010) Limited	100%	Residential mortgages
Mortgage Trust Services PLC	100%	Residential mortgages and asset administration
Paragon Asset Finance Limited	100%	Holding company and portfolio administration
Paragon Business Finance PLC	100%	Asset finance
Paragon Development Finance Limited	100%	Development Finance
Paragon Development Finance Services Limited	100%	Development Finance
Paragon Technology Finance Limited	100%	Asset finance
PBAF Acquisitions Limited	100%	Residential mortgages and loan finance
Premier Asset Finance Limited	100%	Asset finance broker
Specialist Fleet Services Limited	100%	Asset finance and contract hire
Collett Transport Services Limited	100%	Non-trading
Homer Management Limited	100%	Non-trading
Lease Portfolio Management Limited	100%	Non-trading
Paragon Commercial Finance Limited	100%	Non-trading
Paragon Options PLC	100%	Non-trading
Paragon Second Funding Limited	100%	Non-trading
Other indirect subsidiary undertakings		
Moorgate Loan Servicing Limited	100%	Asset administration
Idem Capital Securities Limited	100%	Asset investment
Paragon Personal Finance Limited	100%	Consumer loan finance
Buy to Let Direct Limited	100%	Non-trading
TBMC Group Limited	100%	Non-trading
The Business Mortgage Company Services Limited	100%	Non-trading

The financial year end of all the Group's subsidiary companies is 30 September. They are all registered in England and Wales and operate in the UK except Paragon Pension Investments GP Limited, which is registered in Scotland and operates in the UK.

As part of the Group's financing arrangements certain mortgage and consumer loans originated by Paragon Mortgages (2010) Limited and Mortgage Trust Limited have been sold to special purpose entity companies, referred to as orphan SPEs, which had raised non-recourse finance to fund these purchases. The shares of these companies are ultimately beneficially owned through independent trusts, but they are considered to be controlled by the Group, as defined by IFRS 10, due to the Group's exposures to the variable returns from the assets of each entity and its ability to direct their activities, within the constraints imposed by the lending documents. Hence, they are considered to be subsidiaries of the Group.

The principal companies party to these arrangements at 30 September 2024 comprise:

Company	Principal activity
Paragon Mortgages (No. 26) Holdings Limited	Holding company
Paragon Mortgages (No. 26) PLC	Residential mortgages
Paragon Mortgages (No. 27) Holdings Limited	Holding company
Paragon Mortgages (No. 27) PLC	Residential mortgages
Paragon Mortgages (No. 28) Holdings Limited	Holding company
Paragon Mortgages (No. 28) PLC	Residential mortgages
Paragon Mortgages (No. 29) Holdings Limited	Holding company
Paragon Mortgages (No. 29) PLC	Residential mortgages
Arianty Holdings Limited	Non-trading
Arianty No. 1 PLC	Non-trading
Paragon Fifth Funding Limited	Non-trading
Paragon Seventh Funding Limited	Non-trading
Paragon Sixth Funding Limited	Non-trading
Paragon Mortgages (No. 25) Holdings Limited	Non-trading
Paragon Mortgages (No. 25) PLC	Non-trading
Paragon Covered Bonds Finance Limited	Non-Trading
Paragon Covered Bonds (Holdings) Limited	Non-Trading

All these companies are registered and operate in the UK.

Paragon Covered Bonds LLP is a limited liability partnership registered in England and Wales, in which control is vested in certain other Group entities. It is therefore considered to be a subsidiary of the Group. This entity operates in the UK.

Earlswood Finance (No. 3) Limited, a company limited by guarantee, is registered in England and Wales and operates in the UK. It is included in the consolidation as it is ultimately controlled by the parent company.

The Paragon Pension Partnership LP is a limited partnership established under Scots law, in which control is vested in members which are group companies. It is therefore considered to be a subsidiary entity. The outside member is the Group's Pension Plan and the Plan's rights to income from the partnership are set out in the partnership agreement. Therefore, no minority interest arises. The partnership is registered in Scotland and operates in the UK.

The registered office of each of the entities listed in this note is the same as that of the Company (note 1), except that the registered office of the Scottish entities is Citypoint, 65 Haymarket Terrace, Edinburgh, EH12 5HD.

All the entities listed above are included in the consolidated accounts of the Group.

Companies in liquidation

The following legal subsidiaries of the Group were in liquidation at 30 September 2024. They do not form part of the consolidation as they are considered to be controlled by the liquidator.

Company	Holding	Principal activity
Direct subsidiaries of Paragon Banking Group PLC		
Moorgate Servicing Limited †	100%	Non-trading
Paragon Mortgages (No. 11) PLC †	100% *	Non-trading
Paragon Mortgages (No. 13) PLC †	100% *	Non-trading
Paragon Mortgages (No. 14) PLC †	100% *	Non-trading
Paragon Mortgages (No. 15) PLC †	100% *	Non-trading
Plymouth Funding Limited †	100%	Non-trading
Direct and indirect subsidiaries of Paragon Bank PLC		
City Business Finance Limited †	100%	Non-trading
Fineline Holdings Limited	100%	Non-trading
Fineline Media Finance Limited	100%	Non-trading
PBAF (No.1) Limited †	100%	Non-trading
State Securities Holdings Limited †	100%	Non-trading
State Security Limited †	100%	Non-trading

The shareholdings of the Company in each of the direct subsidiaries shown above is the same as that of the Group, except for companies marked * where the shareholding of the Company is 74%. The issued share capital of each of the companies listed above consists of ordinary shares only.

† These companies were dissolved in November 2024, after the year end.

E.

Appendices to the Annual Report

Additional financial information supporting amounts shown in the Strategic Report (Section A), but not forming part of the statutory accounts or subject to audit.


business
new business

E1. Appendices to the Annual Report

For the year ended 30 September 2024

A. Underlying results

The Group reports underlying profit excluding fair value accounting adjustments arising from its hedging arrangements and certain one-off items of income and costs relating to asset sales and acquisitions.

The fair value adjustments arise principally as a result of market interest rate movements, outside the Group's control. They are profit neutral over time and are not included in operating profit for management reporting purposes. They are also disregarded by many external analysts.

The transactions relating to the asset disposals and acquisitions do not form part of the day-to-day activities of the Group and, therefore, their removal provides greater clarity on the Group's operational performance.

This definition of 'underlying' has been chosen following consideration of the needs of investors and analysts following the Group's shares, and because management feel it better represents the underlying economic performance of the Group's business. However, it should be noted that definitions used for these measures differ between firms, and caution should be exercised in making direct comparisons.

	Note	**2024**	2023
		£m	£m
Profit on ordinary activities before tax		**253.8**	199.9
Add back: Fair value adjustments	*12*	**38.9**	77.7
Underlying profit		**292.7**	277.6

Underlying basic earnings per share, calculated on the basis of underlying profit adjusted for tax, is derived as follows.

	2024	2023
	£m	£m
Underlying profit	**292.7**	277.6
Tax on underlying result	**(80.3)**	(66.4)
Underlying earnings	**212.4**	211.2
Basic weighted average number of shares (note 15)	**210.1**	224.1
Underlying earnings per share	**101.1p**	94.2p

Tax has been charged on the underlying profit at 27.4%, being the effective rate which would result from the exclusion of the adjusting items from the corporation tax calculation (2023: 23.9%).

Underlying return on tangible equity is derived using underlying earnings calculated on the same basis shown above. Tangible equity is adjusted to exclude the impacts of fair value hedging.

	Note	2024	2023
		£m	£m
Underlying earnings		**212.4**	211.2
Amortisation and derecognition of intangible assets	8	**1.2**	3.6
Adjusted underlying earnings		**213.6**	214.8
Opening underlying tangible equity			
Equity		**1,410.6**	1,417.3
Intangible assets	30	**(168.2)**	(170.2)
Balance sheet impact of fair values	26	**(230.8)**	(216.7)
Deferred tax thereon	44	**32.8**	53.2
		1,044.4	1,083.6
Closing underlying tangible equity			
Equity		**1,419.5**	1,410.6
Intangible assets	30	**(171.5)**	(168.2)
Balance sheet impact of fair values	26	**(207.6)**	(230.8)
Deferred tax thereon	44	**19.6**	32.8
		1,060.0	1,044.4
Average underlying tangible equity		**1,052.2**	1,064.0
Underlying RoTE		**20.3%**	20.2%

The Group has noted that several comparable entities present underlying RoTE adjusting only the earnings figure, and this practice is more common than the approach taken by the Group. It has therefore decided to present an alternative underlying RoTE measure on this basis for the current year and to adopt this as its principal underlying RoTE measure in future periods. This measure is calculated as follows:

	Note	2024	2023
		£m	£m
Adjusted underlying earnings		**213.6**	214.8
Average tangible equity	61	**1,245.2**	1,244.7
Alternative underlying RoTE		**17.2%**	17.3%

B. Income statement ratios

NIM and cost of risk (impairment charge as a percentage of average loan balance) for the Group and its segments are calculated as shown below. Not all net interest is allocated to segments and therefore total segment net interest in these tables will not equal net interest for the Group (see note 2).

Year ended 30 September 2024

	Note	**Mortgage Lending £m**	**Commercial Lending £m**	**Group Total £m**
Opening loans to customers	*18*	**12,902.3**	**1,972.0**	**14,874.3**
Closing loans to customers	*18*	**13,415.7**	**2,289.8**	**15,705.5**
Average loans to customers		**13,159.0**	**2,130.9**	**15,289.9**
Net interest	*2*	**282.3**	**124.8**	**483.2**
NIM		**2.15%**	**5.86%**	**3.16%**
Impairment provision charge	*11*	**5.6**	**18.9**	**24.5**
Cost of risk		**0.04%**	**0.89%**	**0.16%**

Year ended 30 September 2023

	Note	Mortgage Lending £m	Commercial Lending £m	Group Total £m
Opening loans to customers	*18*	12,328.7	1,881.6	14,210.3
Closing loans to customers	*18*	12,902.3	1,972.0	14,874.3
Average loans to customers		12,615.5	1,926.8	14,542.3
Net interest	*2*	277.6	135.7	448.9
NIM		2.20%	7.04%	3.09%
Impairment provision charge	*11*	10.4	7.6	18.0
Cost of risk		0.08%	0.39%	0.12%

C. Cost:income ratio

Cost:income ratio is derived as follows:

	Note	2024 £m	2023 £m
Cost – operating expenses	*8*	**179.2**	170.4
Total operating income		**496.4**	466.0
Cost / Income		**36.1%**	36.6%

D. Dividend cover

For the purposes of dividend policy, the Group defines dividend cover based on basic earnings per share, adjusted where considered appropriate, and dividend per share. This is the most common measure used by financial analysts.

For the current and preceding years, the Board has determined that is appropriate to exclude the post-tax impact of fair value (losses) / gains from its calculation. The dividend cover for the year, subject to the approval of the 2024 final dividend at the AGM in March 2025 is therefore as set out below.

	Note	2024	2023
Earnings per share (p)	*15*	**88.5**	68.7
Attributable fair value gains (p)		**18.5**	34.7
Attributable tax thereon (p)		**(5.9)**	(9.2)
Adjusted earnings (p)		**101.1**	94.2
Proposed dividend per share in respect of the year (p)	*48*	**40.4**	37.4
Dividend cover (times)		**2.50**	2.52

E. Net asset value

	Note	2024	2023
Total equity (£m)		**1,419.5**	1,410.6
Outstanding issued shares (m)	*45*	**210.6**	228.7
Treasury shares (m)	*47*	**(2.1)**	(10.1)
Shares held by ESOP schemes (m)	*47*	**(4.2)**	(4.0)
		204.3	214.6
Net asset value per £1 ordinary share		**£6.95**	£6.57
Tangible equity (£m)	*61*	**1,248.0**	1,242.4
Tangible net asset value per £1 ordinary share		**£6.11**	£5.79

F.

Useful Information

Information which may be helpful to shareholders and other users of the Annual Report and Accounts

This section includes

F1. Glossary

ACS	Annual Cyclical Scenario published by the Bank of England
Act	The Companies Act 2006
AGM	Annual General Meeting
AI	Artificial Intelligence
ALCO	Asset and Liability Committee
APP	Accelerated Progress Programme
AQR	Audit Quality Review
ARGA	Auditing, Reporting and Governance Authority
Articles	The Articles of Association of the Company
ASHE	Annual Survey of Hours and Earnings
AT1	Additional Tier 1
Paragon Bank or The Bank	Paragon Bank PLC
Bank Tax Code	The Code of Practice on Taxation for Banks
BBB	British Business Bank
BBLS	Bounce Back Loan Scheme
BBR	Bank Base Rate
BCBS	Basel Committee on Banking Supervision
BEIS	Department for Business, Energy and Industrial Strategy
BEPS	Base Erosion and Profit Shifting
BEVs	Battery-powered Electric Vehicles
BGS	Balance Guarantee Swaps
BHI	Better Hiring Institute
BTR	Build-to-Rent
B4NZ	Bankers For Net Zero
CAGR	Compound Annual Growth Rate
CBES	Climate Biennial Exploratory Scenario

CBI	Confederation of British Industry
CBILS	Coronavirus Business Interruption Loan Scheme
CCC	Customer and Conduct Committee
CCoB	Capital Conservation Buffer
CCP	Central Clearing Counterparty
CCR	Counterparty Credit Risk
CCyB	Counter-Cyclical Capital Buffer
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CFRF	Climate Financial Risk Forum
CGI	Chartered Governance Institute UK & Ireland
CGU	Cash Generating Unit
CIB	Chartered Institute of Bankers
CIIA	Chartered Institute of Internal Auditors
CML	Council of Mortgage Lenders
Code	UK Corporate Governance Code
CO_2e	CO_2 Equivalent
COO	Chief Operating Officer
Company	Paragon Banking Group PLC
CP	Consultation Paper
CPI	Consumer Price Index
CPO	Chief People Officer
CRDs	Cash Ratio Deposits
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation – EU Regulation 575/2013

CSA	Credit Support Annex
CSOP	Company Share Option Plan
CVA	Credit Valuation Adjustment
DECL	Task Force on Disclosure about Expected Credit Loss
DEFRA	Department for Environment, Food and Rural Affairs
DISP	FCA's Dispute Resolution: Complaints Sourcebook
DSBP	Deferred Share Bonus Plan
DTR	Disclosure and Transparency Rule
ECL	Expected Credit Loss
EDI	Equality, Diversity and Inclusion
EIR	Effective Interest Rate
EPC	Energy Performance Certificate
EPS	Earnings per Share
EQA	External Quality Assessment
ERC	Executive Risk Committee
ERMF	Enterprise Risk Management Framework
ESG	Environmental, Social and Governance
ESOP	Employee Share Ownership Plan
ESOS	Energy Savings and Opportunities Scheme
EU	European Union
EV	Economic Value
EWI	Early Warning Indicators
ExCo	Executive Performance Committee
FCA	Financial Conduct Authority
FLA	Finance and Leasing Association
FOS	Financial Ombudsman Service
FPC	Financial Policy Committee (of the Bank of England)
The Framework	The Group Corporate Governance Policy Framework
FRC	Financial Reporting Council
FRN	Floating Rate Note
FSCS	Financial Services Compensation Scheme
FVTPL	Fair Value Through Profit and Loss
GDP	Gross Domestic Product
GFI	Green Finance Institute
GGS	Growth Guarantee Scheme
GHG	Greenhouse Gases
Gilts	UK Government securities
GMP	Guaranteed Minimum Pension
Group	The Company and all its subsidiary undertakings
HMRC	His Majesty's Revenue and Customs
HPI	House Price Index
HQLA	High Quality Liquid Assets
IAP	Internal Audit Plan
IAS	International Accounting Standard(s)
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Interim Capital Regime
IFRS	International Financial Reporting Standard(s)
IIP	Investors In People
ILAAP	Internal Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance
ILTR	Indexed Long Term Repo Scheme
IMLA	Intermediary Mortgage Lenders Association
IRB	Internal Ratings Based
IRRBB	Interest Rate Risk in the Banking Book
ISAs	International Standards on Auditing

ISDA	International Swaps and Derivatives Association
ISO14001:2015	ISO14001:2015, 'Environmental Management Systems'
ISO45001:2018	ISO45001:2018, 'Management Systems of Occupational Health and Safety'
KPMG	KPMG LLP, the Group's auditor
LCR	Liquidity Coverage Ratio
LCV	Light Commercial Vehicles
LDI	Liability Driven Investments
LGD	Loss Given Default
Lintstock	Lintstock Limited
LTGDV	Loan to Gross Development Value
LTV	Loan to Value
M&A	Mergers and Acquisitions
MAR	Market Abuse Regulation
MEES	Domestic Minimum Energy Efficiency Standard as proposed by the UK Government
MES	Multiple Economic Scenarios
MIMHC	Mortgage Industry Mental Health Charter
Minimum Standard	FRC Minimum Standard: Audit Committee and the External Audit
MLRO	Money Laundering Reporting Officer
MRC	Model Risk Committee
MREL	Minimum Requirement for own funds and Eligible Liabilities
MRT	Material Risk Taker
MWh	Mega-Watt Hours
NGFS	Network for Greening the Financial System
NI	National Insurance
NII	Net Interest Income
NIM	Net Interest Margin
Notes	Asset backed loan notes

NPS	Net Promoter Score
NRLA	National Residential Landlords Association
NSFR	Net Stable Funding Ratio
NS&I	National Savings and Investments
OBR	Office of Budget Responsibility
OCI	Other Comprehensive Income
OFGEM	Office of Gas and Electricity Markets
OHSMS	Occupational Health and Safety Management System
OLAR	Overall Liquidity Adequacy Requirement
ONS	Office for National Statistics
ORC	Operational Risk Committee
Order	The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014
PAYE	Pay As You Earn
PBSA	Purpose-Built Student Accommodation
PD	Probability of Default
PCAF	Partnership for Carbon Accounting Financials
Performance Exco	Executive Performance Committee
PFP	Pension Funding Partnership
PIDA	Public Interest Disclosure Act 1998
PIEs	Public Interest Entities
Plan	The Paragon Pension Plan
PLC	Public Limited Company
PMA	Post-Model Adjustments
POCI	Purchased or Originated Credit Impaired (assets)
PPC	Prompt Payment Code
PPP	Purpose and Performance Profiles
PRA	Prudential Regulation Authority (of the Bank of England)

PRS	Private Rented Sector
PRP	Profit Related Pay
PSP	Performance Share Plan
PwC	PricewaterhouseCoopers LLP
RBA	Role Based Allowance
RCP	Representative Concentration Pathway
RCSA	Risk and Control Self Assessment
RCV	Refuse Collection Vehicles
Repo	Sale and repurchase transactions
RICS	Royal Institution of Chartered Surveyors
RIDDOR	Reporting of Incidents, Disease and Dangerous Occurrences Regulation 2013
RLS	Recovery Loan Scheme
RMBS	Residential Mortgage Backed Securities
RNS	Regulatory News Service
RoR	Receiver of Rent
RoTE	Return on Tangible Equity
ROU	Right of Use
RPI	Retail Price Index
RSU	Restricted Stock Unit
RWA	Risk Weighted Assets
SA	Standardised Approach
SAWG	Scenario Analysis industrial Working Group
SA-CCR	Standardised Approach for Counterparty Credit Risk
Schedule 7	Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008
SDDT	Small Domestic Deposit Taker
SEB	Socio-Economic Background
SFS	Specialist Fleet Services Limited
SIC	Standard Industrial Classification
SICR	Significant Increase in Credit Risk
Sharesave	All-employee Share Option scheme
SME	Small and / or Medium-sized Enterprise(s)
SMF	Senior Management Function
SMCR	Senior Managers and Certification Regime
SMMT	Society of Motor Manufacturers and Traders
SONIA	Sterling Overnight Interbank Average
SPPI	Solely Payments of Principal and Interest
SPV	Special Purpose Vehicle
STR	Short-Term Repo (scheme)
TBMC	The Business Mortgage Company
TCFD	Taskforce on Climate-related Financial Disclosures
TCR	Total Capital Requirement
TFSME	Term Funding Scheme with additional incentives for SMEs
TRC	Total Regulatory Capital
TRE	Total Risk Exposure
TSR	Total Shareholder Return
TVR	Total Voting Rights
UK	United Kingdom
UKF	UK Finance
UKLR	UK Listing Rules
UTP	Unlikeliness To Pay

F2. Shareholder information

Want more information or help?

The Company's share register is maintained by our Registrars, Computershare. Please contact them directly if you have questions about your shareholding or wish to update your address details.

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 707 1244*
and outside the UK +44 (0)370 707 1244

Online: www.investorcentre.co.uk

* Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open 8:30am to 5:30pm, Monday to Friday, excluding UK public holidays.

Electronic communications

You can view and manage your shareholding online by registering with Computershare's Investor Centre service. To register:

- **Visit www.investorcentre.co.uk**
- **Click on 'Register now'**
- **Register using your Shareholder Reference Number and your postcode**

We actively encourage our shareholders to receive communications via email and view documents electronically on our website, including our Annual Report and Accounts, as this has significant environmental and cost benefits. If you wish to receive electronic documents please contact Computershare by telephone or online.

Website

You can find further useful information on our website, **www.paragonbankinggroup.co.uk**, including:

- **Regular updates about our business**
- **Comprehensive share price information**
- **Financial results and reports**
- **Historic dividend dates and amounts**

Shareholder fraud warning

Shareholders are advised to be very wary of any suspicious or unsolicited advice or offers, whether over the telephone, through the post or by email. If you receive any such unsolicited communication, please check the company or person contacting you is properly authorised by the FCA before getting involved. You can check at **www.fca.org.uk/consumers/protect-yourself** and can report calls from unauthorised firms to the FCA by calling 0800 111 6768.

Duplicate documents and communications

If you receive more than one copy of shareholder documents, it is likely that you have multiple shareholding accounts on the share register, perhaps with a slightly different name or address. To combine your shareholdings, please contact Computershare and provide your Shareholder Reference Number.

Financial calendar

January 2025	June 2025	July 2025	December 2025
Quarter 1 trading update	Half-year results	Quarter 3 trading update	Full-year results

Dividend calendar

6 February 2025 Ex-dividend date for 2024 final dividend	**7 February 2025** Record date for 2024 final dividend	**7 March 2025** Payment date for 2024 final dividend
3 July 2025 Ex-dividend date for 2025 interim dividend	**4 July 2025** Record date for 2025 interim dividend	**25 July 2025** Payment date for 2025 interim dividend

Annual General Meeting

5 March 2025

F3. Other public reporting

In addition to its annual financial reporting the Group has published, or will publish, the following documents in respect of the year ended 30 September 2024, as required by legislation or regulation, relating to the Group or its constituent entities.

- Annual and half-year Pillar III disclosures required by the PRA Rulebook
- Tax Strategy Statement
- Modern Slavery Statement
- Gender pay gap information

These documents are made available on the Group's website at **www.paragonbankinggroup.co.uk**.

All these statements are required to be published annually. In addition, for the year ended 30 September 2024, the Group has published bi-annual statements on supplier payments under the Reporting on Payment Practices and Performance Regulations 2017. It also made its eighth report against its Women in Finance charter commitments in September 2024.

All this reporting will be continued in the financial year ending 30 September 2025.

The Group publishes an annual sustainability report, the Responsible Business Report. This gives additional information on ESG issues and illustrates the application of the Group's ESG strategy in practice. The 2024 Responsible Business Report will be published in December 2024 and will also be available on the Group's corporate website.

The Group also publishes on its website a statement setting out how it has applied the PRA / FCA dual regulated firms Remuneration Code, as required by the Rule 7.5 of the Remuneration part of the PRA Rulebook and FCA standard SYSC19D.3.13R.

F4. Contacts

Registered and head office

51 Homer Road, Solihull, West Midlands B91 3QJ
Telephone: 0345 849 4000

Investor Relations

(Institutional investors)
investor.relations@paragonbank.co.uk

Company Secretariat

(Retail investors)
company.secretary@paragonbank.co.uk

Corporate website

www.paragonbankinggroup.co.uk

Customer website

www.paragonbank.co.uk

Auditor

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Solicitors

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London EC1Y 8YY

Registrars

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