

Paragon Banking Group PLC

Pillar III Disclosures - 30 September 2024



Contents

1. Introduction	Page 3
2. Key metrics and overview of risk weighted exposure amounts	Page 7
3. Risk management	Page 14
4. Scope of application	Page 31
5. Own funds	Page 39
6. Countercyclical capital buffer	Page 46
7. Leverage ratio	Page 48
8. Liquidity requirements	Page 52
9. Exposures to credit risk and credit quality	Page 59
10. Credit risk mitigation	Page 69
11. Standardised approach to credit risk	Page 71
12. Exposures to counterparty credit risk	Page 74
13. Exposures to securitisation positions	Page 79
14. Standardised approach and internal model approach for market risk	Page 82
15. Exposures to interest rate risk on positions not held in the trading book	Page 84
16. Operational risk	Page 89
17. Remuneration policy	Page 92
18. Encumbered and unencumbered assets	Page 99
19. IRB approach for credit risk	Page 104
20. Glossary	Page 105

Paragon Banking Group PLC

51 Homer Road, Solihull, West Midlands, B91 3QJ

Registered number: 2336032

LEI: 213800S1TDKIB1IUTS72

CAUTIONARY STATEMENT

Sections of this Pillar III disclosure 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 Pillar III disclosure should be construed as a profit forecast.

1. Introduction

This section sets out

- An introduction to the Group
- An overview of the disclosure framework under which this document is prepared
- A summary of the Group's Pillar III disclosure policies
- A summary of the scope and basis of preparation for this document
- A summary of changes made since the Group's last Pillar III disclosures
- A summary of the approval process for the document

Paragon Banking Group PLC (the 'Company') is a UK specialist banking group, sourcing funds in the retail deposit market and lending to consumers and smaller corporates. It is subject to banking regulation and therefore is required, under UK banking regulations, to publicly report on risk and governance matters for each financial year. This expands on the disclosures already required to be given in an entity's annual report and accounts.

This document, referred to as a Pillar III report, is intended to satisfy those requirements. An overview of the disclosures given by theme is shown on page 5.

The Group

The Company controls a group of companies (together the 'Group') including a regulated bank, Paragon Bank PLC (the 'Bank'). 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 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

Each division is responsible for the generation of new business with servicing and the majority of other support functions managed on a group-wide basis.

On 18 February 2014 the Bank was authorised by the Prudential Regulation Authority ('PRA') and is regulated by the PRA and the Financial Conduct Authority ('FCA'). The PRA sets requirements for the Bank relating to capital and liquidity adequacy.

Disclosure framework

The Group is regulated for prudential capital purposes under the Basel III regime, the international regime governing capital maintenance in banks, which is supervised by the Basel Committee on Banking Supervision ('BCBS'). In the UK this regime is enforced through the PRA Rulebook (the 'Rulebook'), following the implementation of the Financial Services Act 2021 on 1 January 2022. Formerly these rules were applied on a European Union ('EU') basis through the fourth Capital Requirements Directive ('CRD IV') and the first Capital Requirements Regulation ('CRR') (Regulation 575/2013). Certain aspects of this EU legislation remain applicable in the UK.

The Company has been operating under the Basel III regime since the authorisation of the Bank in 2014.

The Basel III approach consists of three elements, or 'Pillars', which represent the key principles of the regime:

Pillar I	This covers the minimum capital requirements of Basel III. The calculation is based on a risk-based approach. It focuses on credit, operational and market risk in determining the Group's Minimum Capital Requirement ('MCR'), based on a standard 8% of its risk weighted assets.
Pillar II	<p>This requires that the Group conducts an Internal Capital Adequacy Assessment Process ('ICAAP') which is subject to review by the PRA under the Supervisory Review and Evaluation Process ('SREP').</p> <p>In the ICAAP the Company's Board undertakes an assessment of the key risks facing the Company's business against which capital has not been provided under Pillar I to determine whether additional regulatory capital, over and above the 8% Pillar I requirement, should be held, based on the identified risks and the quality of the risk management processes in place.</p> <p>A firm's Individual Capital Requirement ('ICR') is set by the PRA based on the ICAAP.</p>
Pillar III	<p>Pillar III complements Pillars I and II and aims to encourage market discipline by setting out disclosure requirements which should allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk management processes and remuneration.</p> <p>These requirements are set out in the Disclosure (CRR) Part of the Rulebook.</p>

Since 2022 the regulatory approach to Pillar III includes standardised templates for all disclosure items which are set out in the Rulebook. The majority of this report comprises these templates, all of which are labelled in accordance with the Rulebook. Where full compliance with the disclosure objectives of the Rulebook might not be achieved through the templates alone, additional information has been provided.

The Group has adopted the Standardised Approach ('SA') for credit risk and the Basic Indicator Approach ('BIA') for operational risk. It has submitted an application for authorisation to adopt an Internal Ratings Based ('IRB') approach for credit risk in future periods. These choices impact on which disclosures are required under Pillar III.

Pillar III disclosure policy

The Company's Pillar III disclosures cover the Group as a whole, comprising the Company and all its subsidiary undertakings. They are therefore prepared on the same basis as the Group's consolidated accounts. These bodies are regulated on a consolidated basis and this disclosure treats them as such. References to the Group in this document therefore include the Bank.

The Company's Disclosure Policy for Pillar III is based on its Board of Directors' interpretation of the requirements of the Disclosure (CRR) Part of the Rulebook.

The PRA has redefined the threshold for presenting detailed Pillar 3 information to exclude Small Domestic Deposit Takers ('SDDTs'). The Group would currently meet the SDDT criteria, but this status requires a PRA waiver. The Group has not applied for such a waiver. Its balance sheet also exceeds the grandfathered €5.0 billion threshold set in the previous version of the Rulebook for reduced disclosure.

The Group is defined as an 'Other Institution' under these rules (i.e. neither Large nor Small and Simple) having a balance sheet of less than €30.0 billion but greater than €5.0 billion. Its disclosure requirements are therefore set out in Article 433c of the Rulebook. This requires that the Group produces an annual Pillar III report and a summary Pillar III at each half-year date.

There are certain disclosures that are only required by the Rulebook where an institution is large or an LREQ firm, as defined by the PRA Rulebook. The Group's balance sheet size is too small to be classified as large or to fall within the LREQ rules on leverage. Therefore, these have not been presented for the Group and this is stated under the relevant sections within the report.

The level of disclosure on remuneration matters is subject to additional rules, now set out in the Rulebook. UK-only institutions with no trading book and average assets less than £20.0 billion are defined as 'Small CRR Firms' and a number of templates in the PRA rulebook apply only to larger institutions. The Group currently qualifies as a Small CRR Firm, and these templates are therefore not applicable. This is noted under the relevant sections within the report.

These additional Rulebook provisions replaced the former rules on disclosure proportionality, which had been included in the PRA Supervisory Statement SS 2 / 17.

The Pillar III disclosures are updated on an annual basis using the Group's year end date of 30 September, following publication of the Annual Report and Accounts. A half-yearly summary using the Group's half-year date of 31 March is also provided. The annual and half-yearly reporting process will include consideration of regulatory changes and developing best practice, to ensure that disclosures remain appropriate. More frequent disclosures will be made if there is a material change in the nature of the Group's risk profile during any particular year.

Pillar III disclosures are prepared with input from the Finance, Risk, Treasury and Human Resources functions, and from regulatory specialists. They are reviewed at senior and executive management level, considered by the Audit Committee and approved by the Board of Directors in the same way as the Group's half-year and Annual Report and Accounts for the year.

Pillar III regulatory capital disclosures are published on the investor relations section of the Group's corporate website (www.paragonbankinggroup.co.uk), alongside the Annual Report and Accounts for the year. Both documents are published on the website at approximately the same time, in accordance with the requirement in Article 433 of the Rulebook to publish the Pillar III disclosures in conjunction with the date of publication of the financial statements.

The Company's Pillar III disclosure policy is considered annually to ensure that it remains appropriate in the light of new regulations and emerging best practice.

The Company's Pillar III regulatory capital disclosure policies were approved by the Board of Directors in February 2015 and have been confirmed annually, most recently in December 2024 on the approval of this document.

Scope and basis of disclosure

This Pillar III disclosure has been drawn up in conjunction with the Annual Report and Accounts of the Group for the year ended 30 September 2024 ('the Group Accounts') and with the Group's regulatory reporting for the year.

The figures in this Pillar III disclosure are consistent with the Group Accounts, but do not form part of the Group Accounts. The disclosures presented have been reviewed internally but have not been externally audited. The disclosures are also consistent, where appropriate, with regulatory disclosures submitted to the regulator.

The level, structure and format of the Pillar III disclosures are prescribed by the Rulebook, which includes a suite of templates covering all Pillar III disclosure matters. The requirement to use these standard templates, where much content may not be relevant for any particular bank, means that simpler reporters, such as the Group, will provide a significant volume of nil returns.

The Rulebook requires that all disclosures required by the Disclosure (CRR) Part are provided in a single location, therefore requirements may not be addressed by cross-reference to other public documents.

In drawing up these disclosures the Group has considered the regulations carefully and reviewed emerging market practice, analysing Pillar III reports made by comparable UK lenders including those for the larger challenger banks and building societies.

The Group consolidation for regulatory purposes is the same as that used for statutory purposes and hence all subsidiary undertakings within the Group have been consolidated in the Pillar III disclosures. These are listed in Section 4 – Scope of Application, template UK LI3.

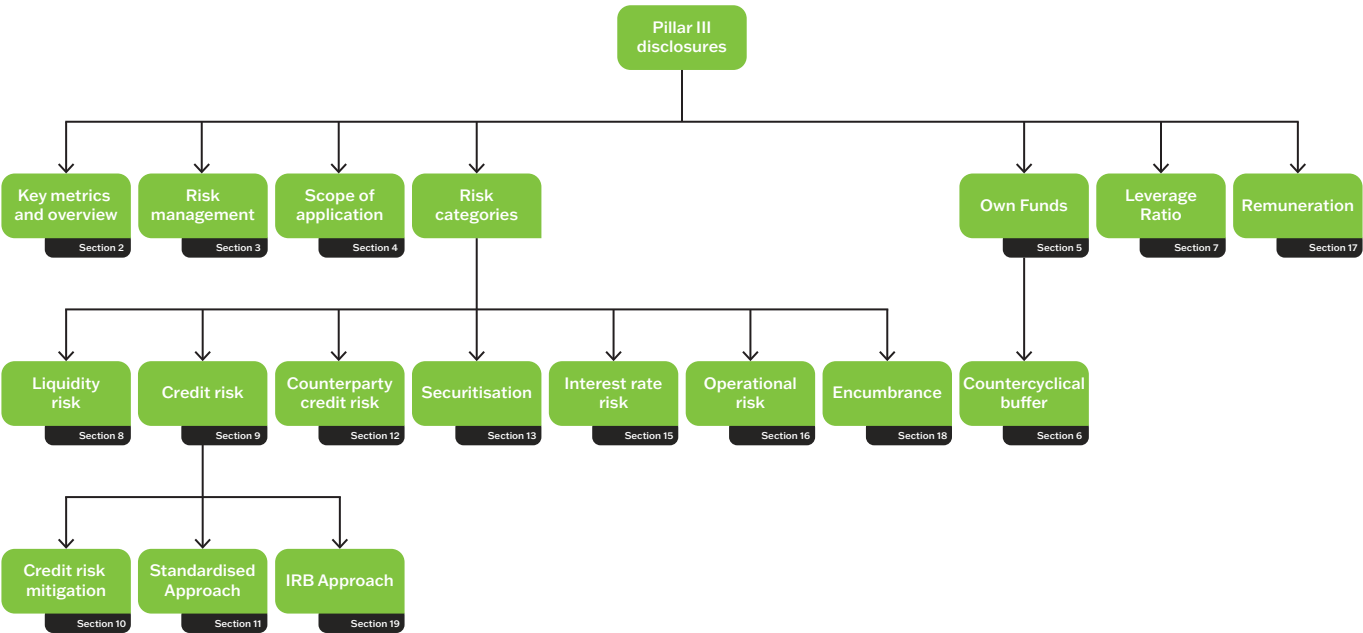
The Pillar III disclosures have been prepared for the Group as a whole, in accordance with the rules laid out in Articles 431 to 451 of the Disclosure (CRR) Part of the Rulebook and having regard to materiality as described above.

The disclosures provide information on the capital adequacy and risk management processes of the Group. These disclosures have been compiled on the most appropriate basis for this purpose and following the instructions on calculation and classification given in the Rulebook. Therefore they may not agree directly with disclosures addressing similar matters presented in the Group Accounts.

Overview of disclosures

Under the PRA Rulebook 'Disclosure (CRR)' part, the disclosures are set out in prescribed templates which are required to be presented in their entirety within the Pillar III report. For the purpose of this document these disclosures and their applicable templates have been grouped thematically, as illustrated below.

Pillar III document overview



Development in disclosures

The Group's Pillar III disclosures were updated in 2022 following the onshoring of the CRR into the Rulebook. No significant changes have been made in the requirements for the current year, but as the Group was among the earliest organisations to report under the new rules, emerging market practice has been kept under review and some minor enhancements to the disclosures presented, particularly in the provision of more information across the Group's principal risks, have been made for the 2024 disclosure.

Market practice will clearly continue to develop as more reports under the new rules are published. The Group will continue to monitor practice as it emerges over time.

As noted above, the requirements for remuneration disclosures were amended by PRA Policy Statement PS 16/23 published on 5 December 2023. This moved the size thresholds for certain remuneration disclosures from Supervisory Statement 2 / 17 into the Rulebook itself. This marginally reduced the level of disclosure required of the Group.

The PRA is also expected to make further changes to the Pillar III disclosure regime as part of its work to implement the Basel 3.1 capital reforms. So far, these changes are limited to reducing the disclosures required where a firm is classified as a Small Domestic Deposit Takers ('SDDT'). While the Group would currently qualify to apply for SDDT status, it has not yet made any such application. The near-final Basel 3.1 Rules published by the PRA in September 2024 include changes to a large number of the templates to correspond with changes made to the capital rules more generally. The near-final rules also expand the half-year reporting requirements for listed firms not qualifying as 'large'. These changes are now expected to be introduced from 1 January 2027.

Approval

The Board of Directors considered this document in light of, amongst other things:

- The Board's consideration of the Group Accounts
- The ICAAP approved by the board in July 2024, and the directors' input into this process
- The Individual Liquidity Adequacy Assessment Process ('ILAAP') approved by the board in November 2024, and the directors' input into this process
- The Board's overall understanding of the Group's risk profile and operations

The Group Accounts include audited and unaudited disclosures addressing the Group's risk exposure, mitigation and appetites. In approving the Group Accounts the directors had to consider the appropriateness of those disclosures and the overall adequacy of the Group's risk management framework, supported by analysis prepared by the Risk and Internal Audit functions.

The Group undertook its annual ICAAP process during the year. The ICAAP was prepared under the direction of the Chief Financial Officer ('CFO') and the executive management of the Group, with appropriate input and challenge from other areas of the business. The ICAAP was reviewed and challenged by the Group's executive, through the Executive Risk Committee ('ERC') and its sub-committees. It was reviewed in detail by board-level Risk and Compliance Committee and was formally approved by the Board in April 2024. Throughout the ICAAP's preparation, the Board was kept up-to-date with its progress and key findings, and the directors have received regulatory training sessions to ensure that they are able to provide the appropriate level of challenge.

The Group completes an ICAAP on at least an annual basis. The update process will occur more frequently if there is a significant change in the Group's business model (potentially following a major acquisition) or in the economic environment within which the Group operates.

In 2021 the PRA conducted a SREP of the Group's capital requirements, based on the ICAAP analysis performed in 2020. The results of this review were very positive, with the regulator significantly reducing its capital requirement based on its assessment of the Group's risk exposures and management systems.

A further review was carried out in 2024, but the results had not been shared by the regulator before the date of approval of this document.

Future ICAAPs will be subject to SREP reviews periodically, particularly in the event of significant changes in the business.

This document was considered by the executive directors and by the Board and the Audit Committee and non-executive directors prior to publication, having regard to their understanding of the business and appropriate external advice.

In particular, they considered whether:

- as a whole the document properly represented the Group's position
- the use of materiality for disclosure purposes was appropriate
- the Group's formal Pillar III disclosure policy remained appropriate
- annual publication of the disclosures remained appropriate

The directors were able to satisfy themselves on these matters and the Pillar III disclosures were therefore approved for publication by the Board of Directors of Paragon Banking Group PLC on 23 January 2025.

2. Key metrics and overview of risk weighted exposure amounts

This section sets out

- Key metrics
- Overview of risk weighted assets

Included in this section are tables which set out the Group's key capital and liquidity metrics and the calculation of its total Risk Weighted Exposure Amount ('RWEA'). The key metrics table (UK KM1), which the Group is required to publish on a six-monthly basis, summarises information covered in more detail in subsequent sections. The RWEA table (UK OV1) summarises the individual elements of RWEA, the derivation of which is discussed in more detail in other sections of the document.

Summary of key metrics

During the year the Group has maintained strong regulatory capital ratios, with capital balances being carefully managed. The Group's 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 Group's Common Equity Tier 1 ('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 the Group's 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 relates principally to the growth in the asset base over the period, mitigated by a reduction in derivative exposures.

The Group's capital ratios show a continued reversion to more normal levels over the year, in accordance with its capital strategy. The trading performance supported growth in the loan book, together with dividends in line with policy and a £100.0 million share buy-back programme. At the same time, the inclusion in trading profits of the phased unwind of fair value gains on hedge accounting recognised in the year ended 30 September 2022, served to reverse the inflated capital levels seen at previous year ends. As IFRS 9 reliefs are phased out the fully loaded and regulatory bases are automatically converging.

During the period the Capital Conservation buffer remained at 2.5%, its long-term rate, while the UK Counter-Cyclical buffer ('CCyB') was 2.0% (31 March 2024: 2.0%; 30 September 2023: 2.0%).

Strong deposit flows resulted in an average Liquidity Coverage Ratio ('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.

At 30 September 2024, the Bank's Net Stable Funding Ratio ('NSFR') stood at 139.5% (31 March 2024: 132.9%; 30 September 2023: 123.4%), higher than its position twelve months earlier, reflecting a marginal strengthening of the position in the year.

2.1 UK KM1 - Key metrics template

		a	c	e	Notes	Further information
		30 Sept 24	31 Mar 24	30 Sept 23		
		£m	£m	£m		
	Available own funds (amounts)					
1	Common Equity Tier 1 ('CET1') Capital	1,177.9	1,174.9	1,188.9		Section 5 UK CC1
2	Tier 1 capital	1,177.9	1,174.9	1,188.9		Section 5 UK CC1
3	Total capital	1,327.9	1,324.9	1,338.9		Section 5 UK CC1
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	8,278.7	7,974.7	7,668.7		UK OV1 (below)
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	14.2	14.7	15.5		
6	Tier 1 ratio (%)	14.2	14.7	15.5		
7	Total capital ratio (%)	16.0	16.6	17.5		
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
7a	Additional CET1 SREP requirements (%)	0.4	0.4	0.4		
7b	Additional AT1 SREP requirements (%)	0.1	0.2	0.2		
7c	Additional T2 SREP requirements (%)	0.2	0.2	0.2		
7d	Total SREP own funds requirements (%)	8.7	8.8	8.8		
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.5	2.5	2.5		
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	[a]	
9	Institution specific countercyclical capital buffer (%)	2.0	2.0	2.0		Section 6 UK CCyB1
UK 9a	Systemic risk buffer (%)	-	-	-	[a]	
10	Global Systemically Important Institution buffer (%)	-	-	-	[a]	
UK 10a	Other Systemically Important Institution buffer	-	-	-	[a]	
11	Combined buffer requirement (%)	4.5	4.5	4.5		

		a	b	c	Notes	Further information
		30 Sept 24	31 Mar 24	30 Sept 23		
		£m	£m	£m		
UK 11a	Overall capital requirements (%)	13.2	13.3	13.3		
12	CET1 available after meeting the total SREP own funds requirements (%)	7.3	7.9	6.7		
	Leverage ratio					
13	Total exposure measure excluding claims on central banks	16,807.9	16,129.5	15,579.3		Section 7
14	Leverage ratio excluding claims on central banks (%)	7.0	7.3	7.6		Section 7
	Additional leverage ratio disclosure requirements					
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	N/A	N/A	N/A	[b]	
14b	Leverage ratio including claims on central banks (%)	N/A	N/A	N/A	[b]	
14c	Average leverage ratio excluding claims on central banks (%)	N/A	N/A	N/A	[b]	
14d	Average leverage ratio including claims on central banks (%)	N/A	N/A	N/A	[b]	
14e	Countercyclical leverage ratio buffer (%)	N/A	N/A	N/A	[b]	
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets ('HQLA') (Weighted value - average)	3,049.1	2,580.9	2,082.1	[c]	Section 8
UK 16a	Cash outflows - Total weighted value	1,785.5	1,528.3	1,397.8	[c]	Section 8
UK 16b	Cash inflows - Total weighted value	332.9	335.2	321.1	[c]	Section 8
16	Total net cash outflows (adjusted value)	1,452.6	1,193.0	1,076.7	[c]	Section 8
17	Liquidity coverage ratio (%)	211.5	218.2	193.8	[d]	Section 8
	Net Stable Funding Ratio					
18	Total available stable funding	19,506.0	18,576.1	17,543.6	[e]	Section 8
19	Total required stable funding	14,120.8	13,975.3	13,706.8	[e]	Section 8
20	NSFR ratio (%)	138.2	132.9	128.0	[e]	Section 8

Notes:

[a] These buffers are not currently applicable to the Group.

[b] These lines are only required for LREQ banks, as defined by the PRA Rulebook. The Group's balance sheet size is too small to be classified as an LREQ bank.

[c] These measures are based on a 12-month rolling average of month-end positions.

[d] This measure is based on a 12-month rolling average of month-end positions, therefore cannot be derived from the values given above it.

[e] These measures are based on a 4-quarter rolling average of quarter-end positions.

2.2 UK OV1 – Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements	Further information
		a	b	c	
		30 Sept 24	30 Sept 23	30 Sept 24	
		£m	£m	£m	
1	Credit risk (excluding CCR)	7,351.1	6,817.1	588.1	
2	Of which the standardised approach	7,351.1	6,817.1	588.1	Section 11, template UK CR4
3	Of which the foundation IRB ('FIRB') approach	-	-	-	
4	Of which slotting approach	-	-	-	
UK 4a	Of which equities under the simple risk weighted approach	-	-	-	
5	Of which the advanced IRB ('AIRB') approach	-	-	-	
6	Counterparty credit risk - CCR	79.6	111.4	6.3	
7	Of which the standardised approach	50.4	67.8	4.0	Section 12, template UK CCR1
8	Of which internal model method ('IMM')	-	-	-	
UK 8a	Of which exposures to a CCP	2.3	1.9	0.2	Section 12, template UK CCR8
UK 8b	Of which credit valuation adjustment - CVA	29.2	43.6	2.3	Section 12, template UK CCR2
9	Of which other CCR	-	-	-	
10	Empty set in the UK				
11	Empty set in the UK				
12	Empty set in the UK				
13	Empty set in the UK				
14	Empty set in the UK				

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements	Further information
		a	b	c	
		30 Sept 24	30 Sept 23	30 Sept 24	
		£m	£m	£m	
15	Settlement risk	-	-	-	
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-	
17	Of which SEC-IRBA approach	-	-	-	
18	Of which SEC-ERBA (including IAA)	-	-	-	
19	Of which SEC-SA approach	-	-	-	
UK 19a	Of which 1250%/ deduction	-	-	-	
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-	
21	Of which the standardised approach	-	-	-	
22	Of which IMA	-	-	-	
UK 22a	Large exposures	-	-	-	
23	Operational risk	848.0	740.2	67.8	<i>Section 16, template UK OR1</i>
UK 23a	Of which basic indicator approach	848.0	740.2	67.8	<i>Section 16, template UK OR1</i>
UK 23b	Of which standardised approach	-	-	-	
UK 23c	Of which advanced measurement approach	-	-	-	
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-	
25	Empty set in the UK				
26	Empty set in the UK				
27	Empty set in the UK				
28	Empty set in the UK				
29	Total	8,278.7	7,668.7	662.3	

2.3 IFRS 9 / Article 468 - Impact of IFRS 9 transitional arrangements & temporary treatment in accordance with CRR Article 468

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 allowed 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 2024 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.

The table below demonstrates the impact of this relief, showing the capital and leverage metrics which would have reported had the relief not been available, referred to as the 'fully loaded' basis.

		30 Sept 24	30 Sept 23
	Available capital (amounts)	£m	£m
1	Common Equity Tier 1 ('CET1') Capital	1,177.9	1,188.9
2	Common Equity Tier-1 ('CET1') capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,175.2	1,175.4
2a	CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied	1,177.9	1,188.9
3	Tier-1 capital	1,177.9	1,188.9
4	Tier-1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,175.2	1,175.4
4a	Tier-1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	1,177.9	1,188.9
5	Total capital	1,327.9	1,338.9
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,325.3	1,325.4
6a	Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	1,327.9	1,338.9
	Risk-weighted assets (amounts)	£m	£m
7	Total risk-weighted assets	8,278.7	7,668.7
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8,276.0	7,655.3
	Capital ratios		
9	Common Equity Tier-1 (as a percentage of risk exposure amount)	14.2%	15.5%
10	Common Equity Tier-1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.2%	15.4%
10a	CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	14.2%	15.5%
11	Tier-1 (as a percentage of risk exposure amount)	14.2%	15.5%
12	Tier-1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.2%	15.4%
12a	Tier-1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	14.2%	15.5%
13	Total capital (as a percentage of risk exposure amount)	16.0%	17.5%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.0%	17.3%
14a	Total capital (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	16.0%	17.5%
	Leverage ratio		
15	Leverage ratio total exposure measure (£m)	16,807.9	15,579.3
16	Leverage ratio	7.0%	7.6%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7.0%	7.6%
17a	Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	7.0%	7.6%

2.4 UK OVC – ICAAP information

(a) Approach to assessing the adequacy of the internal capital (Article 438(a) CRR)

The Group's capital risk appetite has been set at a level which ensures that, at all times, it will maintain own funds, which are adequate to meet the internal requirements of the Board as well as the PRA's overall financial adequacy rule.

The Group undertakes an Internal Capital Adequacy Assessment Process ('ICAAP') which challenges the amount, and quality, of capital which is required to maintain a strong balance sheet characterised by strong liquidity, superior asset quality and a capital structure which supports the risk taking activities of the Group and its ability to absorb losses.

The Pillar 2A assessment considers firm specific risks and risks not included in Pillar 1. Pillar 2B considers the impact of a range of plausible but severe economic scenarios on the Group's capital resources and requirements, and the actions that could be taken to manage the capital position during periods of stress, across a five-year planning horizon. A comprehensive scenario library, which is derived from a principal risk and vulnerability review, supports the Pillar 2A and 2B assessments.

The Group's Corporate Plan is developed with input from Finance, Risk, Treasury and the business lines, and forms the foundation for financial modelling and stress testing used as part of the ICAAP.

The ICAAP is subject to Executive Risk Committee ('ERC') and Board approval (upon recommendation of the Risk and Compliance Committee of the Board). Performance metrics are reviewed and monitored by the Asset and Liability Committee ('ALCO') and through Credit Committee.

The ICAAP was most recently completed in July 2024 and is undertaken approximately annually or more frequently should the need arise, for example on a significant acquisition or disposal, or change in the Group's risk profile.

(b) Result of the Group's internal capital adequacy assessment process (Article 438(a) CRR)

Under Annex II to the Disclosure (CRR) Part of the Rulebook, this information shall only be disclosed by institutions when required by the relevant competent authority. This has not been demanded from the Group.

2.5 UK INS1 – Insurance participations

The Group has no own funds held in insurance or reinsurance firms therefore template UK INS1 has not been presented.

2.6 UK INS2 – Financial conglomerates information on own funds and capital adequacy ratio

Financial conglomerates are large groups with significant activities in more than one financial sector (banking, investment, insurance). The Group does not qualify as a financial conglomerate therefore template UK INS2 has not been presented.

3. Risk management

This section sets out

- An overview of the Group's risk management processes, including
 - Risk statement
 - The risk management framework
 - The process of risk governance
- Strategies and processes to manage risks
- The process by which the Group's risk appetite is set with regard to those risks and the principal measures used to monitor them
- Details of the Board's assessment of the Group's risk management processes in the year
- Recruitment policy for the selection of members of management and their actual knowledge, skills and expertise

The way that the Group manages risk is fundamental to its soundness and to the level of capital it is required to carry to protect depositors. The Rulebook requires certain disclosures about the Group's approach to risk management and governance, to place the disclosures dealing with specific aspects of risk in their proper context.

The Group is exposed to a number of principal risks and uncertainties that arise from the operation of its business model and strategy. The identified principal risks are set out below.

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

This section discusses the Group's overarching process to manage all of these risks, including its use of its Enterprise Risk Management Framework ('ERMF') with additional information on particular risks provided in the relevant section of the document where required by the Rulebook.

3.1 UK OVA – RISK MANAGEMENT APPROACH

(a) Risk Statement approved by the management body (Point (f) of Article 435(1) CRR)

Effective risk management is core to the execution of the Group's strategy.

The Group's activities necessarily incur an element of risk; however the Group seeks to protect itself and its stakeholders from the adverse impacts of risk through:

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

- facilitating adherence to regulatory requirements, including threshold conditions, capital standards and supporting the regulatory requirements associated with the ICAAP, the ILAAP and the Recovery Plan
- providing senior management and relevant committees with risk reporting that is relevant and appropriate, enabling timely action to be taken in response
- defining risk policies which align to the Group's principal risks and identify the minimum control requirements and key indicators to manage and measure these risks

The ERMF is intended to provide a robust, proportionate, structured and consistent approach to the management of risk within agreed appetites, thereby supporting the achievement of the Group's strategic objectives. To support this the Group employs a 'three lines of defence model' to delineate responsibilities in the management of risk ensuring adequate segregation in the oversight and assurance of risk.

The Group's independent risk function, which is led by the Chief Risk Officer ('CRO'), provides oversight and challenge of risk management practices and performance, with the Internal Audit function providing assurance to the Board on the overall effectiveness of the internal control environment.

The current suite of principal risks that the Group is seeking to manage to meet its strategic objectives, the processes used to manage and mitigate those risks, and the principal risk committee that oversees each of these, is as follows:

Capital Risk		
Description	Mitigation	Risk Management Committee
<p>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.</p> <p>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 2027, a final consultation on the implications for Pillar 2 capital is still to be delivered.</p>	<p>A robust process exists over reporting capital metrics, both internally and to the PRA, with a comprehensive annual ICAAP assessment including all material capital risks.</p> <p>An internal capital buffer is maintained in excess of minimum regulatory requirements to protect against unexpected losses.</p> <p>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.</p> <p>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.</p>	Asset and Liability Committee
Further information on the Group's exposure to, and management of capital risk is given in Sections 5 to 7		

Liquidity and Funding Risk		
Description	Mitigation	Risk Management Committee
<p>The risk that the Group has insufficient liquidity and funding resources to meet its obligations as they fall due, cannot raise or maintain sufficient funds to finance its future plans or can only secure such resources at excessive cost and / or encumbrance.</p> <p>Retail deposit-taking is central to the Group's funding plans and therefore changes in market conditions could impact the ability of the business to maintain the level of funding required to sustain normal business activity.</p>	<p>The Group maintains a diversified range of both retail and wholesale funding sources to cover current and future business requirements.</p> <p>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.</p> <p>The Group has a dedicated Treasury function, which is responsible for the day-to-day management of its overall liquidity and wholesale funding. The Board, through the delegated authority provided to the ALCO, sets limits for the level, composition and maturity of funding and liquidity resources.</p> <p>The Group's holdings of its own mortgage-backed securities, together with assets pre-positioned with the Bank of England, mean that it has ready access to wholesale funding or liquidity if required.</p>	Asset and Liability Committee
Further information on the Group's exposure to, and management of liquidity and funding risk is given in Section 8		

Market Risk		
Description	Mitigation	Risk Management Committee
The risk of changes in the net value of, or net income arising from, Paragon's assets and liabilities, from adverse movements in market prices	<p>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.</p> <p>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.</p> <p>The Group seeks to match the maturity profile of assets and liabilities and uses financial instruments, such as interest rate swaps, to hedge the exposure arising from repricing mismatches.</p>	Asset and Liability Committee
Further information on the Group's exposure to, and management of market risk is given in Sections 14 and 15		

Credit Risk		
Description	Mitigation	Risk Management Committee
<p>The risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations to the Group when they fall due, or a change in the credit quality of the third party or instrument, as evidenced by a change in its credit ratings (as determined by the applicable ratings system)</p> <p>Credit risk elements which could expose the Group to the risk of unexpected material losses include:</p> <ul style="list-style-type: none"> 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 	<p>The Group has a robust credit risk framework supported by comprehensive policies in place that set out detailed criteria which must be met before loans are approved. Exceptions to credit policies require approval by the Credit Risk function, operating under a mandate from the Credit Committee.</p> <p>The Group uses a range of sources to inform expectations of key external factors such as interest rate movements and house price inflation which are in turn used to guide policy and underwriting. The Group also continues to develop opportunities to diversify the range of its activities and income streams, consistent with its strategic objective of operating as a prudent, risk-focussed specialist lender.</p> <p>The majority of the Group's loans by value continue to be secured against UK residential property at conservative loan-to-value levels. The primary collateral therefore forms part of a highly mature, sustainable market, demonstrated over many decades of operation.</p> <p>Exposure to wholesale counterparty credit risk, which is supervised by the Asset and Liability Committee ('ALCO'), is limited to counterparties that meet specific credit rating criteria per the Group's comprehensive treasury policies. Exposure to approved counterparties is monitored daily by senior management within the Group's Treasury function with all exposure managed within ALCO-approved limits.</p> <p>Ongoing monitoring of the credit rating and financial performance of all outsourced relationships and critical suppliers is undertaken, supervised by the Operational Risk Committee ('ORC').</p>	Credit Risk Committee
Further information on the Group's exposure to, and management of credit risk is given in Sections 9 to 12		

Model Risk		
Description	Mitigation	Risk Management Committee
<p>The risk that the Group may make incorrect decisions based on the output of internal models, due to errors in the development, implementation or use of such models resulting in a loss or misreporting within financial statements</p> <p>Models are used across the Group to inform financial decision making and hence it is imperative that the environment in which the models are designed, implemented and operate is subject to appropriate rigour.</p>	<p>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 Model Risk Committee ('MRC') which oversees the development, implementation and ongoing monitoring of models across the Group.</p> <p>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.</p> <p>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. The Group is undertaking a programme of work to ensure compliance with the principles in advance of receiving IRB accreditation and is therefore well-placed to meet the requirements within the timeframes required.</p>	Model Risk Committee

Reputational Risk		
Description	Mitigation	Risk Management Committee
<p>The risk of negative consequences arising from a failure to meet the expectations and standards of the Group's customers, investors, regulators, or other stakeholders whilst undertaking business activities</p> <p>Maintenance of a strong reputation across all business lines, operational activities, and the conduct of employees and associated third parties is core to the Group's philosophy.</p> <p>Detrimental reputational impacts may result from internal actions and external events, as a consequence of the crystallisation of other principal risks, or through failure to safeguard the integrity of the Group's brand or meet external expectations in its business practices.</p>	<p>The reputational risk policy supports reputational risk management across the Group. Reputational issues are considered at Board and ExCo level and, where relevant, will be identified, reviewed and escalated through risk committee governance.</p> <p>The reputational impacts of changes to strategy, pricing, people, processes or third-party relationships are explicitly considered in the decision-making process and are reviewed by the Director of External Relations. The Group will not undertake any activity it considers might be damaging to its reputation.</p> <p>Employees adhere to defined standards of conduct, encompassing policies, procedures and ways of working. These are defined in the Group's publicly available Code of Conduct.</p> <p>The Group has an experienced External Relations function which manages all Group communications and ensures that the reputational profile of the Group is protected. Reputational risk is monitored through tracking traditional and social media coverage, net promoter scores, review platforms and regular customer surveys.</p> <p>Any material risk events are reviewed for reputational impact, and mitigating actions are initiated as appropriate.</p>	Executive Risk Committee

Strategic Risk		
Description	Mitigation	Risk Management Committee
<p>The Group's strategy as a specialist lender is key to its operating model and business planning. However, there is a risk that changes to its business model, or macroeconomic, geopolitical, regulatory, competitive or other external factors may impact delivery of strategic objectives.</p>	<p>The Group closely monitors economic developments in the UK and overseas, with support from leading independent macro-economic and other advisors.</p> <p>Stress testing is performed to assess its expected performance under a range of operating conditions. This provides the Board with an informed understanding and appreciation of the Group's capacity to withstand shocks of varying severities.</p> <p>The Group continues to exploit opportunities to diversify the range of its activities and income streams, consistent with its strategic objective of operating as a prudent, risk-focussed lender.</p>	Executive Risk Committee

Climate Change Risk		
Description	Mitigation	Risk Management Committee
<p>The risk of climate changes impacting the Group either directly or indirectly through its third-party relationships or its lending activities.</p> <p>This includes both the transitional risk to its strategy and profile through external measures to progress to a low-carbon environment, and any physical risks arising from changes to the natural environment that could impact the calculation and valuation of assets and liabilities.</p>	<p>The Group proactively manages physical risk and has specific underwriting policies aimed at the mitigation of, for example, risks associated with flooding, coastal erosion, and subsidence. The potential for transition risk is monitored within the different business lines, with external events prompting consideration of amendments to credit policy and underwriting criteria. 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.</p> <p>The Group continues 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.</p> <p>Ongoing and enhanced climate change analysis, supported by scenario testing, continues to be further embedded throughout the business to inform longer-term strategic planning.</p> <p>The Sustainability Committee, which reports to Performance ExCo, 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.</p>	Executive Risk Committee

Conduct Risk		
Description	Mitigation	Risk Management Committee
<p>The risk that the Group's culture drives poor behaviours or decision making in the execution of its business activities which leads to failure to deliver good outcomes for customers and / or the inability to demonstrate that the Group is acting with integrity in the market</p> <p>The commitment to delivering good customer outcomes is at the heart of the Group's culture and strategy.</p> <p>Conduct risk arises where the culture and behaviours fail to promote the customer's best interests and avoid foreseeable consumer harm, resulting in poor outcomes for the customer.</p>	<p>The management of conduct risk within the Group is tailored to the specific product and customer type and includes dedicated quality and control teams, which validate process adherence, the delivery of good customer outcomes, and the appropriate management of those customers showing signs of vulnerability, including those in financial difficulties.</p> <p>During the year work continued to review and enhance the Group's 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.</p> <p>The Group's 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 (who holds the SMF which covers incentives), CFO and Conduct and Compliance Director before implementation.</p>	Customer and Conduct Committee

Operational Risk		
Description	Mitigation	Risk Management Committee
<p>The risk of financial or non-financial detriment resulting from inadequate or failed internal procedures, people and systems or from external events.</p> <p>Operational risk is inherently diverse in nature. All the Group's activities create various forms of operational risk which need to be managed through a strong control and oversight structure. Exposure to operational risk will be exacerbated through periods of transformation and / or stress.</p>	<p>The Group has an established operational risk framework, which enables timely and accurate analysis of operational risk exposures and drives accountability and remedial actions where issues are identified.</p> <p>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 (IT) and Security (including cyber risks), Data Protection, Change Management, Third Parties, Financial Crime and People.</p> <p>The Group is 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 the Group increasingly moves to cloud-based infrastructure and looks to harness digital capability as part of the IT roadmap. As the use of AI becomes more established, the Group remains alert to the additional risks this may bring to its own operations and the wider industry as well as the opportunities this may also create in enhancing risk management approaches.</p> <p>Whilst the Group continues to drive through strategic transformation across all its lending lines, there remains a continuing focus on ensuring that these changes do not compromise overall resilience. A well-embedded change framework ensures that changes are managed in a controlled way. Operational resilience remains a key driver with consideration at all stages of the project lifecycle.</p> <p>The Group relies on third party providers for a number of key services including in support of its savings offering, and in respect of material IT services. The robust oversight of third parties is also seen as critical to overall resilience.</p> <p>The Group continues to focus on building an engaged and highly skilled workforce through the delivery of effective reward, succession planning, recruitment, development and retention strategies. In addition, the Group remains committed to the wellbeing of its employees and responding to their feedback, enabled through its multiple employee networks.</p>	Operational Risk Committee
Further information on the Group's exposure to, and management of operational risk is given in Section 16		

There are no transactions with related parties within the Group that have a material impact on the risk profile of the Group. The Group does not have any affiliates.

The Group's risk appetite is aligned to its principal risks and is supported by board, ERC and executive sub-committee level measures underpinned by tolerances that align to the risk appetite thresholds.

These measures are subject to regular review by the relevant risk management committee, with any ERC or sub-committee level measure exceeding its tolerance being escalated to higher-level committees as appropriate.

Risk appetite measures are reviewed as part of the annual review of the principal risk policy and, in addition, holistically reviewed by the Board annually as part of the corporate planning process and setting of the Group's strategy.

Following completion in April 2023 of the formal project to enhance the Group's ERMF, embedding of the framework remains ongoing and the Group is committed to a process of continuous improvement to ensure the framework remains fit for purpose and proportionate. An annual assessment of risk maturity is undertaken to evaluate the effectiveness of the framework and to drive any focus areas for improvement.

(b) Information on the risk governance structure for each type of risk (Point (b) of Article 435(1) CRR)

The Group has an integrated framework for risk management, which addresses all of the identified risks noted above. This governance structure is outlined below.

Governance

The Board is accountable for the management of the principal risks facing the Group. It delegates oversight responsibility to the Risk and Compliance Committee ('RCC') and receives regular reports on the status of each principal risk from the ERC, via the Chief Executive Officer ('CEO'). The RCC receives regular reporting on each principal risk and the Chief Risk Officer ('CRO') provides an update on the activities of the ERC at each RCC meeting. The oversight of the management of each principal risk, other than model risk, is delegated by the ERC to the relevant risk management committee, which monitors performance against risk appetite on an ongoing basis.

Responsibility for the oversight of model risk has been delegated by the RCC to the MRC.

Paragon Banking Group PLC Board

Audit Committee

Assists the Board in fulfilling its oversight responsibilities by reviewing and monitoring:

- the integrity of the financial information provided to shareholders
- the Group's systems of internal financial control and other control systems
- the internal and external audit process and auditors
- the process for compliance with laws and regulations

Risk and Compliance Committee

Reviews, on behalf of the Board, management's recommendations on enterprise risk, in particular:

- the Group's current and future risk appetite including the extent and categories of risk which the Board regards as acceptable
- the Group's enterprise risk management framework including principles, supporting frameworks, risk policies, personnel and procedures
- the risk culture, to ensure that it supports the Group's risk appetite
- the strategy to ensure that it promotes integrity in the market, the fair treatment of customers and good outcomes for retail customers as central to operations and culture
- the Group's processes for compliance with laws, regulations and ethical codes of practice and prevention of fraud

Model Risk Committee ('MRC')

The MRC is a subsidiary committee of the RCC, and its role 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.

Under the leadership of the CEO, there are a number of risk management committees that oversee management of risk across the Group, as follows:

Executive Risk Committee

Oversight of Reputational, Climate Change and Strategic Risk

Assists the CEO in designing and embedding the Group's risk framework, monitoring adherence to risk appetite statements, identifying, assessing and managing the principal risks within the Group and reviewing stress and scenario testing of the Group's strategic and business plans. The ERC has direct responsibility for Strategic, Climate Change and Reputational Risk but delegates the oversight of certain other principal risks to its sub-committees, as described below. The ERC reviews all Principal Risk and level 2 Risk Policies and recommends changes to Principal Risk Policies to the Board Risk and Compliance Committee. The ERC oversees the development and maintenance of the Strategic and Reputational Risk policies and adherence to them, and monitors the interaction and integration of business objectives, strategy and plans with risk appetite and risk strategy.

Asset and Liability Committee ('ALCO')

Oversight of capital risk, liquidity and funding risk, market risk and wholesale counterparty credit risk

The principal purpose of ALCO is to monitor and review the financial risk management of the Group's balance sheet. As such, it is responsible for overseeing all aspects of market risk, liquidity risk, pricing and capital management as well as the treasury control framework. ALCO operates within clearly delegated authorities, monitoring exposures and providing recommendations on actions required.

Credit Committee

Oversight of credit risk

The Credit Committee approves credit risk policies in respect of customer exposures and defines risk grading and underwriting criteria for the Group. It also provides guidance and makes recommendations in order to implement the Group's strategic plans for credit. It 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 and operates the most senior lending mandate.

Customer and Conduct Committee ('CCC')

Oversight of conduct risk and regulatory compliance risk

Responsible for overseeing the management of the Group's conduct risk and regulatory compliance risk (including financial crime risk). The CCC considers conduct risk information, such as details of conduct or regulatory breaches; systems and procedures for delivering good outcomes to customers; the product governance framework; and monitoring reports. It is responsible for overseeing adherence to FCA Consumer Duty principles and outcomes.

Operational Risk Committee ('ORC')

Oversight of operational risk

The ORC is responsible for overseeing the Group's operational risk and resilience arrangements, including those systems and controls intended to counter the risk that the Group might be used to further financial crime. The 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.

Model Review Group

Oversight of model risk

Model Review Group is a technical forum whose purpose is to review the performance of all models recorded on the Group's Model Inventory. Due to the nature of the risk the Model Review Group reports directly to the Model Risk Committee

To support this approach the Group operates a formal "three lines of defence" governance model. The three lines of defence governance model ensures appropriate responsibility and accountability is allocated to management and enables the Group to separate risk management activities between those that:

- Own and take risk, and implement controls (Line 1)
- Oversee and challenge Line 1 and provide risk management activity including overseeing the frameworks and standards for risk management and supporting controls (Line 2)
- Provide assurance that the "evaluate-respond-monitor" process is fit-for-purpose, and this is being carried out as intended (Line 3)

A summary of the three lines of defence model is set out below.

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

Risk Champions are appointed within all business areas to support the embedding of an effective risk culture across the Group

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

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

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

Policy and control

The Group's risk policies are an integral part of the ERMF. The policies are aligned to the principal risks and, in some cases, sub-risk categories. These are executive owned and:

- Set the principles for managing the risk
- Define the relevant risk appetite measures, metrics and thresholds
- Set the standards and minimum control requirements for the risk

It is the supporting minimum control requirements that set out the control environment for the effective management of the risk within appetite, and inform the business level key controls that need to be in operation. Under the Risk and Control Self-Assessment ('RCSA') process these controls are then tested on a regular basis.

As part of the ongoing development of the ERMF, a key focus for the next 12 months is further refinement of the risk and control inventories through refresh of the policies and ensuring these are embedded within the RCSAs to reflect the organisational structure and strategy of the Group. This will in turn help further embed the approach to risk assurance, informing better planning and targeted reviews. A consolidated Second Line assurance plan is in place which sets out the various types of assurance activity to be undertaken and covers all principal risk categories, including sub-categories of operational and conduct risk. Updates on progress and any proposed changes to the plan are regularly reported to the RCC.

The Rulebook (in Annex IV) requires that changes in certain roles related to risk management should be disclosed in a firm's Pillar III reporting. There have been no changes of the Internal Audit Director, Enterprise Risk Director or Conduct and Compliance Director during the period. However, the job title of the Internal Audit Director was changed to Chief Internal Auditor from 1 October 2024, although her reporting line and mandate remain the same.

(c) Declaration approved by the management body on the adequacy of the risk management arrangements (Point (e) of Article 435(1) CRR)

The Board, as the management body, monitors the Group's risk management and control systems and carries out an annual review of the effectiveness of control. Based on the current year's review it has been acknowledged that "the Group's control environment is felt to be adequate".

(d) Disclosure of the scope and nature of risk disclosure and/or measurement systems (Point (c) of Article 435(1) CRR)

The statement set out in 'c' above is reviewed by the Audit Committee and approved by the Board following an annual review of the effectiveness of control undertaken by Second and Third lines, and forms the annual attestation.

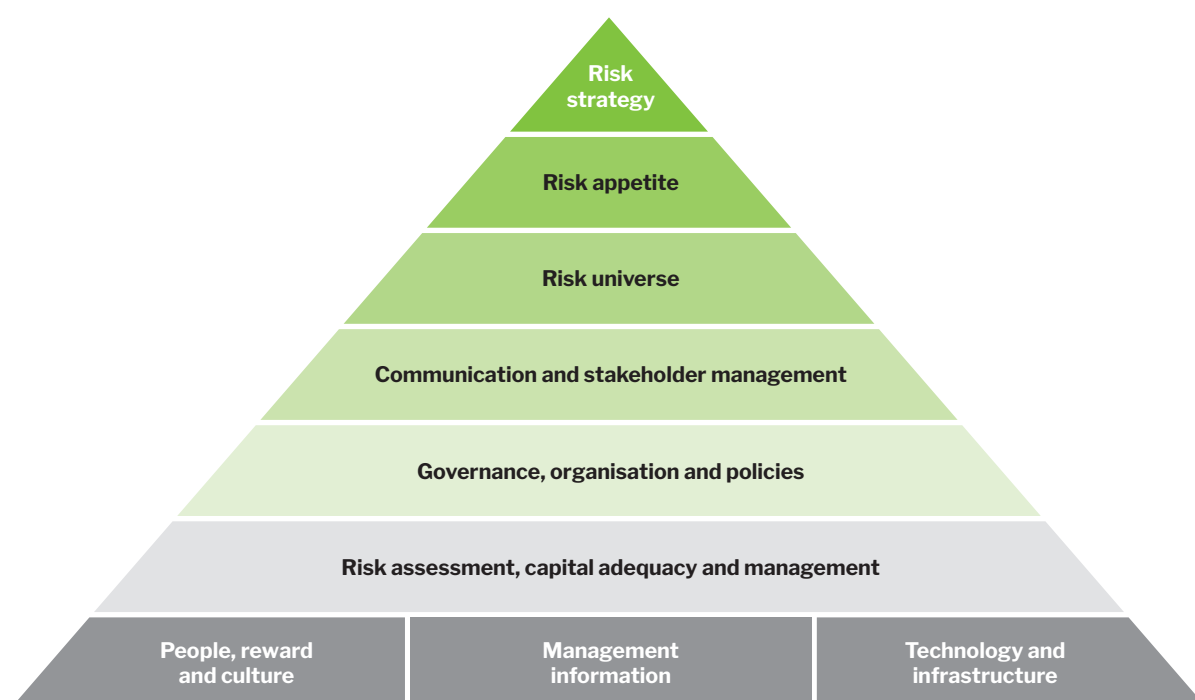
(e) Disclosure information on the main features of risk disclosure and measurement systems (Point (c) of Article 435(1) CRR)

The RCC's annual review of effectiveness of control includes assessment of the effectiveness of the Group's system of governance, risk management and control across the principal risk categories. The assessment extends across all principal risk categories and is informed by information gathered from internal sources such as risk and control self-assessment and covers, but is not limited to: risk profiles, control effectiveness, risk event management and action management.

(f) Strategies and processes to manage risks for each separate category of risk (Point (a) of Article 435(1) CRR)

The ERMF sets out the strategy for risk management for all classes of risk across the Group. The ERMF comprises a number of connected components that give a robust and integrated structure for consistent and effective risk management (see below).

Each principal risk policy sets out the strategy for managing that specific risk category and, where appropriate, the sub-risks.



ERMF component	Purpose	Documents and activities
Risk strategy	Establishes the Group's high-level approach to risk management through the ERMF. Also covers an agreed approach for assessing embeddedness of the ERMF through design and implementation of a Risk Maturity Assessment approach	<ul style="list-style-type: none"> • ERMF • Three Lines of Defence model • Risk Maturity Framework and Assessments
Risk appetite	Defines the approach to setting and managing risk appetite through the Risk Appetite Framework. This covers risk appetite statements, measures, metrics and thresholds, which set out the levels of risk within which the Group is willing to operate. Establishes Key Risk Indicators and reporting requirements	<ul style="list-style-type: none"> • Risk Appetite Framework • Risk Appetite Measures and Tolerances • Risk Appetite Adherence Tracking (aggregated)
Risk universe	Documents the types of risk that the Group faces and needs to manage. These include the principal risks and lower level risks to which business areas' risks align, to form the complete set of risks the Group is exposed to	<ul style="list-style-type: none"> • Risk Categories • Business Area Risks
Communication and stakeholder management	Sets out the communication approach to external stakeholders so that their interests and needs can be appropriately managed. Also covers the way external interests in the Group's approach to risk management are managed and addressed	<ul style="list-style-type: none"> • Regulatory engagement • Shareholder engagement • Insurance programme • Risk Division intranet site
Governance, organisation and policies	Sets out the Group's risk governance structure and terms of reference for each risk committee, aligned to the ERMF and relevant Senior Managers and Certification Regime ('SM&CR') responsibilities. Also establishes a set of risk policies and associated policy standards, covering the defined risk categories and setting out the requirements for managing each risk	<ul style="list-style-type: none"> • Management and Risk Oversight Committee Structures and Terms of Reference • Business Unit Risk Forums • Risk Policy Framework, inventory and templates • Risk Policies and Policy Standards
Risk assessment, capital adequacy and management	Defines a standardised approach to risk management identification, analysis and treatment, which facilitates the prioritising of risk management activities. Facilitates appropriate capital allocation and an appropriate return on capital for the agreed risks	<ul style="list-style-type: none"> • Operational Risk Frameworks (e.g. RCSA, Risk Events) • Risk registers • Risk Acceptance and Policy Waiver Process • ICAAP and Capital Allocations • Stress Testing Framework
People, reward and culture	Establishes a target state risk culture that is communicated and understood, enabling risk management activities to be delivered and recognised in the right way. Sets out clear risk management responsibilities and training approaches to enhance risk capability and support risk maturity	<ul style="list-style-type: none"> • Risk culture framework and dashboard • Role profiles and risk responsibilities • Training (e.g. e-learning module) • Risk champions community • Performance Management
Management information	Defines requirements for the recording and reporting of risks and control activities and for providing assurance to senior management on the adequacy of risk management arrangements	<ul style="list-style-type: none"> • Business Level Risk Reporting • Committee Reporting Packs • Risk Assurance Framework, planning and reporting
Technology and infrastructure	Underpins risk management capability with the tools and systems to support effective implementation, operation and evolution and embedment of the risk management framework	<ul style="list-style-type: none"> • Risk Management Software • ERMF Document Library

Stress testing

Stress testing is an integral part of the Group's approach to risk management. Stress testing is a forward-looking risk management tool used to quantify, evaluate and understand the potential impact of specified changes to risk factors on the financial strength and operational resilience of the Group, including its capital and liquidity positions.

The Group's Stress Testing Framework uses a multi-layered approach, from single portfolio (business line or product) level analysis to comprehensive group-wide stress testing, which is aligned to guidance and requirements from relevant regulatory and standard setting bodies.

Stresses considered are not solely financial, but also address operational and climate-related scenarios, amongst other issues.

Stress testing exercises are conducted at least annually to support internal capital and liquidity adequacy assessments (the ICAAP and ILAAP). In addition, stress tests are performed alongside the corporate planning process, the assessment of going concern in support of external reporting requirements and on an ad hoc basis as required to support targeted reviews based on emerging or potential risks. The RCC oversees the overall stress testing programme, its implementation and performance, providing review and challenge and ensuring that appropriate technical expertise is utilised.

(g) Information on the strategies and processes to manage, hedge and mitigate risks, as well as on the monitoring of the effectiveness of hedges and mitigants (Points (a) and (d) of Article 435(1) CRR)

The Group's ERMF describes the overarching approach to risk management including the various approaches to mitigating or hedging risks including Mitigating, Accepting, Transferring and Avoiding, to ensure that all risks are managed within agreed levels of appetite. The application of these approaches is described in detail in the specific principal risk policy, which defines and describes the relevant risk.

The governance over the management of each risk is well-defined within the policy and ultimately the processes for managing and monitoring the effectiveness of hedges and mitigants are overseen by the RCC.

These policies for management, mitigation and hedging are summarised in the table of principal risks above with more detail given later in the document in respect of the principal financial risks: credit risk, market risk, capital risk, liquidity and funding risk and operational risk.

Key to the strategy of continuous improvement of the ERMF is the expectation that further enhancements will be made to the associated frameworks to refine the approaches and ensure consistency across all risk types, informed by any findings from the annual risk maturity assessment.

3.2. UK OVB – DISCLOSURE ON GOVERNANCE ARRANGEMENTS

(a) The number of directorships held by members of the management body (Point (a) of Article 435(2) CRR)

The number of other directorships of board members outside the Group, as at 30 September 2024, disclosed in accordance with Article 435(2) point (a) are set out below.

The number of directorships within the Group is also shown for each director. All directors are members of the boards of both Paragon Banking Group PLC and Paragon Bank PLC.

Director	Position	Directorships of group entities	Total number of external directorships	Number of external directorships counted in accordance with CRD Article 91(3) and 91(4)
Robert D East	Chair of the Board	2	1	1
Nigel S Terrington	Chief Executive Officer	4	-	-
Richard J Woodman	Chief Financial Officer	68	3	3
Hugo R Tudor	Non-executive director	2	6	4
Peter A Hill	Non-executive director	2	3	2
Alison C M Morris	Non-executive director	2	6	2
Barbara A Ridpath	Non-executive director	2	2	1
Graeme H Yorston	Non-executive director	2	1	1
Tanvi P Davda	Non-executive director	2	2	2
Zoe L Howorth	Non-executive director	2	3	3

When counted in accordance with CRD Article 91(3) and 91(4) directorships of related entities (eg two subsidiaries of the same group) are counted as a single appointment and organisations pursuing predominantly non-commercial objectives are disregarded.

(b) Information regarding the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise (Point (b) of Article 435(2) CRR)

The Group has Board Composition and Succession plans in place to ensure that the Board is composed of persons who collectively are fit and proper to direct the Group's business with prudence and integrity; and possess an appropriate range of diverse backgrounds and balance of experience, knowledge and skills. 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.

The Group strongly values diversity on the Board, not only of gender, but also of experience and background, recognising the contribution such diversity can make towards achieving the appropriate balance of skills and knowledge which an effective

board of directors requires. The EDI policy, which applies to the Board, its committees, the executive committees, and senior management as well as the wider workforce, addresses such matters as age, gender, ethnicity, sexual orientation, disability and educational, professional or socio-economic background. The Group's adherence to the FCA Listing Rule requirement and its agreement of voluntary targets to meet the expectations of the Parker Review and Women in Finance Charter demonstrate its commitment to achieving a diverse workforce at all levels.

The recruitment process for directors is designed to ensure the Board possesses a range of skills, noted below, and appropriate objectivity. It also involves detailed referencing and other checks to establish the candidate's credentials, including suitability, fitness and propriety. Regulatory approval is also required for board roles assigned SMF responsibilities, as defined by the Senior Managers and Certification Regime ('SM&CR').

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 The Group's 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.

Oversight of the Board's training and development programme is the responsibility of the Nomination Committee and contributes to the ensuring the ongoing effectiveness of the Board.

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 topics.

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.

Economic environment	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

Actual knowledge, skills and expertise

The skills and experience of the directors on the Board at 30 September 2024 are set out below:

Director	Experience	Specific areas of expertise*
Robert D East Chair of the Board and Chair of the Nomination Committee	<p>Robert has over 40 years' experience in UK financial services, including at board level, as CEO and Chair.</p> <p>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.</p> <p>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.</p> <p>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').</p>	<ul style="list-style-type: none"> • 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
Nigel S Terrington CEO	<p>Nigel's early career began in investment banking, which included working for UBS, where he ran its Financial Institutions Group. He joined the Group in 1987, becoming Treasurer shortly thereafter, before being appointed as Finance Director and then Chief Executive.</p> <p>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.</p> <p>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.</p> <p>He is an associate of the CIB and in 2017 received an Honorary Doctorate from Birmingham City University for services to the finance industry.</p> <p>Nigel is a trustee of the Banking for Barnado's charity.</p>	<ul style="list-style-type: none"> • Strategic and detailed understanding of banking and of the Group, its markets, its operations and its people • Leadership of the Group's diversification from a monoline buy-to-let lender to a broadly-based specialist banking group • Long-term, through-the-cycle expertise, including successful management of the Group through the 1992 and 2007 financial crises

Richard J Woodman CFO	<p>Richard joined the Group in 1989 and has held various senior strategic and financial roles, including Director of Business Analysis and Planning and Managing Director of Idem Capital.</p> <p>He has taken a lead role in the Group's strategic development and, in particular, in the loan portfolio acquisition programme through Idem Capital and the Group's Mergers and Acquisitions ('M&A') programme.</p> <p>He is a member of the Chartered Institute of Management Accountants.</p>	<ul style="list-style-type: none"> Broad expertise gained from long-term, through-the-cycle, knowledge and understanding of the Group, its markets and its operations, in particular its financial management controls and reporting, liquidity, stress testing and capital management Executive director responsible for climate change matters and, alongside the Group's Chief Risk Officer, Richard takes a lead on progressing Paragon's IRB accreditation
Alison C M Morris Chair of the Audit Committee and Senior Independent Director	<p>Alison is a chartered accountant and was a partner in PwC's financial services audit practice until the end of 2019.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> 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
Hugo R Tudor	<p>Hugo spent 26 years in the fund management industry, originally with Schroders and most recently with BlackRock, covering a wide range of UK equities.</p> <p>He is a Chartered Financial Analyst and a Chartered Accountant.</p>	<ul style="list-style-type: none"> Detailed knowledge of the investor perspective A strong understanding of the executive remuneration market
Peter A Hill Chair of the Risk Committee	<p>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.</p> <p>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.</p> <p>He was chair of the CML for three years and was a member of the board of UK Finance.</p> <p>Peter is a fellow of the Royal Society of Arts and an associate of the CIB.</p>	<ul style="list-style-type: none"> Specialist retail banking and mortgage lending expertise Detailed knowledge of the financial services sector
Barbara A Ridpath	<p>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.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> Strong knowledge of the operation and implementation of operational risk management systems Detailed knowledge of the securitisation market
Graeme H Yorston	<p>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.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> 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

Tanvi P Davda Chair of the Remuneration Committee	<p>Tanvi brings a diverse range of skills and knowledge to the Board, built up over an executive career of more than 25 years.</p> <p>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.</p> <p>In 2015, Tanvi co-founded the wealth management firm, Saranac Partners, where she was CEO until 2021 and a non-executive director until 2022.</p> <p>Tanvi's non-executive career has also included roles on the Board of Ofqual, the qualifications and examinations regulator, and the Student Loans Company.</p>	<ul style="list-style-type: none"> Strong finance, advisory and regulatory experience
Zoe L Howorth	<p>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.</p> <p>Zoe is a board member of AG Barr PLC, a FTSE 250 consumer goods business, where she is chair of the ESG Committee and member of the Remuneration Committee.</p> <p>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.</p>	<ul style="list-style-type: none"> Extensive fast-moving consumer goods, consumer brand and digital marketing expertise ESG strategy and governance

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

(c) Information on the diversity policy with regard of the members of the management body (Point (c) of Article 435(2) CRR)

The board 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. The Group is aligned to the ongoing objectives of the FTSE Women Leaders Review and is committed to increasing the number of women in senior roles. The Committee is monitoring progress towards the 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.

The Group continues 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.

The Group's Equality, Diversity and Inclusion ('EDI') policy, applies to the Board, its committees, the executive committees and senior management as well as the wider workforce. It addresses such matters as age, gender, ethnicity, sexual orientation, disability and educational, professional or socio-economic background ('SEB').

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

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

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

76.8% of employees had provided diversity data for analysis at the beginning of the year and this increased to 80.9% by 30 September 2024. This supports the Group's culture and commitment to EDI matters and has helped shape EDI activities, including focused communication campaigns to raise awareness and celebrate differences, and to provide more development opportunities for under-represented groups. The board-level Nomination Committee is responsible for monitoring these activities and the Group's progress in this area.

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

(d) Information whether or not the institution has set up a separate risk committee and the frequency of the meetings (Point (d) of Article 435(2) CRR)

The Group has an established board-level Risk and Compliance Committee ("RCC") which meets at least four times per year. The RCC met five times in the financial year ended 30 September 2024.

In addition the CEO has established an ERC to oversee day-to-day risk management activity. This committee meets at least bi-monthly throughout the year.

(e) Description on the information flow on risk to the management body (Point (e) of Article 435(2) CRR)

The Board has overall responsibility for oversight of risk management but to ensure independence it delegates certain responsibilities to the RCC and the Audit Committee. For model risk management, the RCC delegates responsibility to the Model Risk Committee, as the Group's IRB designated committee. The board committees report to the Board on their activities.

Executive risk management is undertaken by the ERC, which is chaired by the CRO. The ERC delegates the management of certain risks to its sub-committees, which report to the ERC on their activities. The CEO provides regular updates to the RCC and Audit Committee on risk activities.

Reporting on all principal risks is provided to the RCC at each meeting. The risk appetite framework is constructed to ensure that material risk information is escalated on a timely basis to allow the management body to have a clear view of any change to the risk profile.

4. Scope of application

This section sets out

- Analysis of differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories
- Sources of differences between regulatory exposure amounts and carrying values in the financial statements
- Differences in scope of consolidation

The Pillar III information includes all of the Group's subsidiary entities, but the Disclosure (CRR) Part requires this information to be shown in a specified line-by-line format. It also requires that a reconciliation of the balances shown in the audited financial statements of the Group for the year to some of the information used in the Pillar III reporting is provided.

4.1. UK LI1 - DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

		a	b	c	d	e	f	g
		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
				Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
		£m	£m	£m	£m	£m	£m	£m
Breakdown by asset class according to the balance sheet in the published financial statements								
1	Cash – central banks	2,315.5	2,315.5	2,315.5	-	-	-	-
2	Cash – retail banks	209.9	209.9	209.9	-	-	-	-
3	Investment securities	427.4	427.4	427.4	-	-	-	-
4	Loans to customers	15,630.3	15,630.3	15,705.5	-	-	-	(75.2)
5	Derivative financial assets	391.8	391.8	-	391.8	-	-	-
6	Sundry assets	20.7	20.7	20.7	-	-	-	-
7	Current tax assets	9.7	9.7	9.7	-	-	-	-
8	Retirement benefit obligations	22.2	22.2	-	-	-	-	22.2
9	Property, plant and equipment	71.0	71.0	71.0	-	-	-	-
10	Intangible assets	171.5	171.5	-	-	-	-	171.5
11	Total assets	19,270.0	19,270.0	18,759.7	391.8	-	-	118.5
Breakdown by liability classes according to the balance sheet in the published financial statements								
1	Short-term bank borrowings	0.4	0.4	-	-	-	-	0.4
2	Retail deposits	16,314.7	16,314.7	-	-	-	-	16,314.7
3	Derivative financial liabilities	99.7	99.7	-	99.7	-	-	-
4	Corporate bond issuance	149.9	149.9	-	-	-	-	149.9
5	Central bank facilities	755.0	755.0	-	-	-	-	755.0
6	Sale and repurchase agreements	100.0	100.0	-	-	-	-	100.0
7	Sundry Liabilities	417.4	417.4	-	-	-	-	417.4
8	Deferred tax liabilities	13.4	13.4	-	-	-	-	13.4
9	Total liabilities	17,850.5	17,850.5	-	99.7	-	-	17,750.8

4.2. UK LI2 - MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS

		a	b	c	d	e
		Total ¹	Items subject to			
	Credit risk framework		Securitisation framework	CCR framework	Market risk framework	
		£m	£m	£m	£m	£m
1	Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)	19,151.5	18,759.7	-	391.8	-
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	(99.7)	-	-	(99.7)	-
3	Total net amount under the regulatory scope of consolidation	19,051.8	18,759.7	-	292.1	-
4	Off-balance-sheet amounts	1,456.6	1,210.2	-	246.4	-
5	Differences in valuations	(237.1)	-	-	(237.1)	
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	
7	Differences due to consideration of provisions	2.7	2.7	-	-	
8	Differences due to the use of credit risk mitigation techniques ('CRMs')	(146.7)	-	-	(146.7)	
9	Differences due to credit conversion factors	(1,060.8)	(1,060.8)	-	-	
10	Differences due to Securitisation with risk transfer	-	-	-	-	
11	Other differences	-	-	-	-	
12	Exposure amounts considered for regulatory purposes	19,066.5	18,911.8	-	154.7	-
			See table UK CR4	See Section 13	See table UK CCR1	See Section 14

Notes:

¹Differences are explained in Section 4.3(b)

4.3. UK LIA - EXPLANATIONS OF DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY EXPOSURE AMOUNTS

(a) Differences between columns (a) and (b) in template UK LI1 (Article 436(b) CRR)

There are no differences between the columns because no entities are derecognised from the accounting balance sheet for regulatory purposes.

(b) Qualitative information on the main sources of differences between the accounting and regulatory scope of consolidation shown in template UK LI2 (Article 436(d) CRR)

The amounts considered for regulatory reporting purposes shown in template UK LI2 differ to the carrying values under the regulatory scope of consolidation as a result of

- Inclusion of off-balance sheet amounts in respect of lending pipelines in line with UK CRR article 111, as shown in row 4 of UK LI2, reduced by credit conversion factors (row 9)
- Inclusion of Potential Future Exposure ('PFE') on derivative instruments (row 4)
- Valuation of exposures on derivative instruments using the Replacement Cost ('RC') basis rather than at IFRS 9 fair value as required by the Standardised Approach for Counterparty Credit Risk ('SA-CCR') (row 5)
- Adding back of IFRS 9 provision reliefs as described in Section 2.3 (row 7)
- Effect of credit risk mitigation techniques (row 8)

Credit risk mitigation techniques primarily relate to government guarantees on BBLS, CBILS and RLS loans within retail exposures and the effect of the consideration of collateral (margining) in the SA-CCR calculation for derivative exposures.

4.4. UK LI3 - OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY)

a	b	c	d	e	f	g	h
Name of the entity	Method of accounting consolidation	Method of regulatory consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
Paragon Bank PLC	Full consolidation	X					Deposit taking, residential mortgages and loan and vehicle finance
Paragon Car Finance Limited	Full consolidation	X					Vehicle finance
Idem Capital Holdings Limited	Full consolidation	X					Intermediate holding company
Paragon Mortgages (No. 12) PLC	Full consolidation	X					Residential Mortgages
Colonial Finance (UK) Limited	Full consolidation	X					Non-trading
Earlwood Finance Limited	Full consolidation	X					Non-trading
Earlwood Finance (No.3)	Full consolidation	X					Non-trading
Herbert (1) PLC	Full consolidation	X					Non-trading
Herbert (2) PLC	Full consolidation	X					Non-trading
Herbert (4) PLC	Full consolidation	X					Non-trading
Herbert (5) PLC	Full consolidation	X					Non-trading
Herbert (6) PLC	Full consolidation	X					Non-trading
Herbert (7) PLC	Full consolidation	X					Non-trading
Herbert (8) PLC	Full consolidation	X					Non-trading
Herbert (9) PLC	Full consolidation	X					Non-trading
Herbert (10) PLC	Full consolidation	X					Non-trading
Paragon Car Finance (1) Limited	Full consolidation	X					Non-trading
Paragon Dealer Finance Limited	Full consolidation	X					Non-trading
Paragon Loan Finance (No. 3) Limited	Full consolidation	X					Non-trading

Paragon Mortgages (No. 5) PLC	Full consolidation	X					Non-trading
Paragon Pension Investments GP Limited	Full consolidation	X					Non-trading
Paragon Pension Plan Trustees Limited	Full consolidation	X					Non-trading
Paragon Personal Finance (1) Limited	Full consolidation	X					Non-trading
Paragon Third Funding Limited	Full consolidation	X					Non-trading
Paragon Vehicle Contracts Limited	Full consolidation	X					Non-trading
The Business Mortgage Company Limited	Full consolidation	X					Non-trading
The Paragon Pension Partnership LP	Full consolidation	X					Non-trading
Universal Credit Limited	Full consolidation	X					Non-trading
Yorkshire Freeholds Limited	Full consolidation	X					Non-trading
Yorkshire Leaseholds Limited	Full consolidation	X					Non-trading
Paragon Finance PLC	Full consolidation	X					Residential mortgages and asset administration
Mortgage Trust Limited	Full consolidation	X					Residential mortgages
Paragon Mortgages Limited	Full consolidation	X					Residential mortgages
Paragon Mortgages (2010) Limited	Full consolidation	X					Residential mortgages
Mortgage Trust Services PLC	Full consolidation	X					Residential mortgages and asset administration
Paragon Asset Finance Limited	Full consolidation	X					Holding company and portfolio administration
Paragon Business Finance PLC	Full consolidation	X					Asset finance
Paragon Development Finance Limited	Full consolidation	X					Development Finance

Paragon Development Finance Services Limited	Full consolidation	X					Development Finance
Paragon Technology Finance Limited	Full consolidation	X					Asset finance
PBAF Acquisitions Limited	Full consolidation	X					Residential mortgages and loan finance
Premier Asset Finance Limited	Full consolidation	X					Asset finance broker
Specialist Fleet Services Limited	Full consolidation	X					Asset finance and contract hire
Collett Transport Services	Full consolidation	X					Non-trading
Homer Management Limited	Full consolidation	X					Non-trading
Lease Portfolio Management Limited	Full consolidation	X					Non-trading
Paragon Commercial Finance Limited	Full consolidation	X					Non-trading
Paragon Options PLC	Full consolidation	X					Non-trading
Paragon Second Funding Limited	Full consolidation	X					Non-trading
Moorgate Loan Servicing Limited	Full consolidation	X					Asset Administration
Idem Capital Securities Limited	Full consolidation	X					Asset Investment
Paragon Personal Finance Limited	Full consolidation	X					Consumer loan finance
Redbrick Survey and Valuation Limited	Full consolidation	X					Surveyors and property consulting
Buy to Let Direct Limited	Full consolidation	X					Non-trading
Moorgate Asset Administration Limited	Full consolidation	X					Non-trading
TBMC Group Limited	Full consolidation	X					Non-trading
The Business Mortgage Company Services Limited	Full consolidation	X					Non-trading
Paragon Seventh Funding Limited	Full consolidation	X					Non-trading

Paragon Mortgages (No. 26) Holdings Limited	Full consolidation	X					Holding Company
Paragon Mortgages (No. 26) PLC	Full consolidation	X					Residential Mortgages
Paragon Mortgages (No. 27) Holdings Limited	Full consolidation	X					Holding Company
Paragon Mortgages (No. 27) PLC	Full consolidation	X					Residential Mortgages
Paragon Mortgages (No. 28) Holdings Limited	Full consolidation	X					Holding Company
Paragon Mortgages (No. 28) PLC	Full consolidation	X					Residential Mortgages
Paragon Mortgages (No. 29) Holdings Limited	Full consolidation	X					Holding Company
Paragon Mortgages (No. 29) PLC	Full consolidation	X					Residential Mortgages
Arianty Holdings Limited	Full consolidation	X					Holding Company
Arianty No. 1 PLC	Full consolidation	X					Non-trading
Paragon Fifth Funding Limited	Full consolidation	X					Non-trading
Paragon Sixth Funding Limited	Full consolidation	X					Non-trading
Paragon Mortgages (No. 25) Holdings Limited	Full consolidation	X					Non-trading
Paragon Mortgages (No. 25) PLC	Full consolidation	X					Non-trading
Paragon Covered Bonds Finance Limited	Full consolidation	X					Non-trading
Paragon Covered Bonds (Holdings) Limited	Full consolidation	X					Non-trading
Paragon Covered Bonds LLP	Full consolidation	X					Non-trading

4.5. UK LIB - OTHER QUALITATIVE INFORMATION ON THE SCOPE OF APPLICATION

(a) Impediment to the prompt transfer of own funds or to the repayment of liabilities within the group (Article 436(f) CRR)

The Bank's requirement to maintain regulatory capital and liquid resources above a level determined by the PRA could restrict its ability to make dividend payments or make loan repayments to other group entities. There are no other current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between the Company and its subsidiary undertakings.

(b) Subsidiaries not included in the consolidation with own funds less than required (Article 436(g) CRR)

No subsidiaries are excluded from the consolidation.

(c) Use of derogation referred to in Article 7 CRR or individual consolidation method laid down in Article 9 CRR (Article 436(h) CRR)

The Group is regulated by the PRA and the FCA. Following the UK's withdrawal from the European Union the European CRD V / CRR II framework, set out in EU Directive 2019/878 and EU Regulation 2019/876, continues to apply to the Group, as it applied on the Brexit Exit Day (31 January 2022), except as subsequently amended by the UK authorities, with the position overall governed by the PRA Rulebook.

The Group is required to calculate and maintain regulatory capital on both a group basis and on an individual consolidation basis. There are no differences between the basis of consolidation of the Group for accounting and prudential purposes. Full details of the Group's subsidiary undertakings are included in template UKLI3.

The Group has permission to use the individual consolidation method, with approval granted on 2 August 2022 by the PRA.

(d) Aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation (Article 436(g) CRR)

Not applicable to the Group as there are no excluded subsidiaries.

4.6. UK PV1 – PRUDENT VALUATION ADJUSTMENTS ('PVA')

Template UK PV1 has not been presented as, per Annex VI instructions, it is only applicable to those institutions applying the Core Approach for the determination of the additional valuation adjustment for prudent valuation in accordance with Chapter III of the PRA rulebook, Trading Book (CRR) Part, Section 4, whereas the Group utilises the Simplified Approach. Under this approach PVA is calculated as 0.1% of the sum of the absolute value of fair-valued assets and liabilities.

In accordance with Article 436 (e) the breakdown of the Group's PVA has been presented below:

	30 Sept 24
	£m
Fair value swap assets	391.8
Short-term investments	-
Contingent consideration	-
Fair value swap liabilities	99.7
Total	491.5
Prudent Valuation Adjustment (0.1%)	0.5

The PVA is added to the credit risk framework net amount under the regulatory scope of consolidation in Section 4, template UK LI2, in order to derive the exposure amounts considered for regulatory purposes. It is also deducted from the Group's capital for regulatory purposes (Section 5 – Table UK CC1 (line 7)).

5. Own funds

This section sets out

- Composition of regulatory own funds
- Reconciliation of regulatory own funds to balance sheet in the audited financial statements
- Main features of regulatory own funds instruments and eligible liabilities instruments

Regulatory capital is the amount which the Group has available to meet its regulatory and operational requirements. Its reconciliation to balances in the Group's financial statements is shown in tables UK CC1 and UK CC2, with the instruments comprising that capital described in detail in table UK CAA.

The Group's regulatory capital is calculated on the basis laid out in the Rulebook and set out in the tables below. The capital ratios used by the Group in its public reporting are those defined by the Rulebook, calculated as shown by the tables below.

5.1. UK CC1 – COMPOSITION OF REGULATORY OWN FUNDS (2024)

References in column (b) below are to table UK CC2 in Section 5.2.

		a	b
		30 Sep 24	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation
		£m	
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	282.0	(a)
	<i>of which: ordinary shares</i>	282.0	(a)
2	Retained earnings	1,242.1	(a)
3	Accumulated other comprehensive income (and other reserves)	(104.6)	(a)
UK 3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	
5	Minority interests (amount allowed in consolidated CET1)	-	
UK 5a	Independently reviewed interim profits net of any foreseeable charge or dividend	(55.6)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,363.9	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(0.5)	Section 4.6
8	Intangible assets (net of related tax liability) (negative amount)	(171.5)	(b)
9	Empty set in the UK		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	
12	Negative amounts resulting from the calculation of expected loss amounts	-	

13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	
15	Defined-benefit pension fund assets (negative amount)	(16.7)	(d)
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
20	Empty set in the UK		
UK 20a	<i>Exposure amount of the following items which qualify for a RW of 1250% where the institution opts for the deduction alternative</i>	-	
UK 20b	<i>of which: qualifying holdings outside the financial sector (negative amount)</i>	-	
UK 20c	<i>of which: securitisation positions (negative amount)</i>	-	
UK 20d	<i>of which: free deliveries (negative amount)</i>	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	
22	Amount exceeding the 17.65% threshold (negative amount)	-	
23	<i>of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities</i>	-	
24	Empty set in the UK		
25	<i>of which: deferred tax assets arising from temporary differences</i>	-	
UK 25a	Losses for the current financial year (negative amount)	-	
UK 25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	
26	Empty set in the UK		
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	
UK 27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	2.7	
28	Total regulatory adjustments to Common Equity Tier 1 ('CET1')	(186.0)	
29	Common Equity Tier 1 ('CET1') capital	1,177.9	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	
31	<i>of which: classified as equity under applicable accounting standards</i>	-	
32	<i>of which: classified as liabilities under applicable accounting standards</i>	-	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	-	
UK 33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	
UK 33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	

34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	
35	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	
36	Additional Tier 1 ('AT1') capital before regulatory adjustments	-	
Additional Tier 1 ('AT1') capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
41	Empty set in the UK		
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	
42a	Other regulatory adjustments to AT1 capital	-	
43	Total regulatory adjustments to Additional Tier 1 ('AT1') capital	-	
44	Additional Tier 1 ('AT1') capital	-	
45	Tier 1 capital (T1 = CET1 + AT1)	1,177.9	
Tier 2 ('T2') capital: instruments			
46	Capital instruments and the related share premium accounts	150.0	(c)
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	
UK 47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	-	
UK 47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	
50	Credit risk adjustments	-	
51	Tier 2 ('T2') capital before regulatory adjustments	150.0	(c)
Tier 2 ('T2') capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
54a	Empty set in the UK		
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	

56	Empty set in the UK		
UK 56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	
UK 56b	Other regulatory adjustments to T2 capital	-	
57	Total regulatory adjustments to Tier 2 ('T2') capital	-	
58	Tier 2 ('T2') capital	150.0	
59	Total capital (TC = T1 + T2)	1,327.9	
60	Total risk exposure amount	8,278.7	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.2%	
62	Tier 1 (as a percentage of total risk exposure amount)	14.2%	
63	Total capital (as a percentage of total risk exposure amount)	16.0%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	13.2%	
65	<i>of which: capital conservation buffer requirement</i>	2.5%	
66	<i>of which: countercyclical buffer requirement</i>	2.0%	
67	<i>of which: systemic risk buffer requirement</i>	0.0%	
UK 67a	<i>of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer</i>	0.0%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.5%	
69	[non relevant in UK]		
70	[non relevant in UK]		
71	[non relevant in UK]		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-	
74	Empty set in the UK		
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	

83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

5.2. UK CC2 - RECONCILIATION OF REGULATORY OWN FUNDS TO BALANCE SHEET IN THE AUDITED FINANCIAL STATEMENTS

		a	c
		Balance sheet as in published financial statements ¹	Reference
		30 Sept 24	
		£m	
Assets - Breakdown by asset class according to the balance sheet in the published financial statements			
1	Cash - central banks	2,315.5	
2	Cash - retail banks	209.9	
3	Investment securities	427.4	
4	Loans to customers	15,630.3	
5	Derivative financial assets	391.8	
6	Sundry assets	20.7	
7	Current tax assets	9.7	
8	Retirement benefit obligations	22.2	(d)
9	Property, plant and equipment	71.0	
10	Intangible assets	171.5	(b)
11	Total assets	19,270.0	
Liabilities - Breakdown by liability class according to the balance sheet in the published financial statements			
1	Short-term bank borrowings	0.4	
2	Retail deposits	16,314.7	
3	Derivative financial liabilities	99.7	
4	Corporate bond issuance	149.9	(c)
5	Central bank facilities	755.0	
6	Sale and repurchase agreements	100.0	
7	Sundry liabilities	417.4	
8	Deferred tax liabilities	13.4	
9	Total liabilities	17,850.5	
Shareholders' Equity			
1	Called up share capital	210.6	(a)
2	Reserves	1,274.3	(a)
3	Own Shares	(65.4)	(a)
4	Total shareholders' equity	1,419.5	(a)

Note:

¹The Group has the same statutory and regulatory scope of consolidation. Therefore, 'column b - Under regulatory scope of consolidation' has not been presented (as it is equal to 'column a')

5.3. UK CCA: MAIN FEATURES OF REGULATORY OWN FUNDS INSTRUMENTS AND ELIGIBLE LIABILITIES INSTRUMENTS

The 2021 Corporate Bond is shown at reference (b) in table UK CC2.

		1	2
		Equity	2021 Corporate Bond
1	Issuer	Paragon Banking Group PLC	Paragon Banking Group PLC
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN GB00B2NGPM57	ISIN XS2312738599
2a	Public or private placement	Public	Public
3	Governing law(s) of the instrument	England and Wales	England and Wales
3a	Contractual recognition of write down and conversion powers of resolution authorities	N/A	N/A
Regulatory treatment			
4	Current treatment taking into account, where applicable, transitional CRR rules	N/A	N/A
5	Post-transitional CRR rules	Common Equity Tier-1	Tier-2
6	Eligible at solo/(sub-)consolidated/ solo&(sub-) consolidated	Solo and (sub) consolidated	Solo and (sub) consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Corporate Bond
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	£282.0m	£150.0m
9	Nominal amount of instrument	£210.6m	£150.0m
UK 9a	Issue price	Nominal value £1 †	Par
UK 9b	Redemption price	N/A	Par
10	Accounting classification	Shareholders' Equity	Liability-amortised cost
11	Original date of issuance	Original listing date 15 May 1989 *	25 March 2021
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	25 September 2031
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Redeemable by the Issuer on any day (from and including) 25 June 2026 Tax and Regulatory calls also
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	Fixed‡
18	Coupon rate and related index	N/A	4.375%
19	Existence of a dividend stopper	N/A	No
UK 20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
UK 20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A

30	Write-down features	N/A	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination (only for eligible liabilities)	N/A	N/A
UK 34b	Ranking of the instrument in normal insolvency proceedings	2	1
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	2	N/A
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	Web link	Web link

† Shares have been issued at various different premiums from time-to-time.

* This is the date of the first listing of the Company's ordinary shares. There have been restructurings since that date and further shares have been issued from time-to-time.

‡ Subject to market-based repricing five years after issue.

Full terms of business for the Group's Common Equity Tier-1 and Tier-2 instruments are provided on the Investor Relations section of its corporate website www.paragonbankinggroup.co.uk.

6. Countercyclical capital buffer

This section sets out

- Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer
- Amount of institution specific countercyclical buffer

The Countercyclical capital Buffer ('CCyB') is set on a nation-by-nation basis and applies to a firm based on the location of the relevant assets. However all of the Group's assets are located in the UK, and hence only the UK CCyB rate, set by the Financial Policy Committee of the Bank of England, applies.

6.1. UK CCYB1 - GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL BUFFER

£m		a	b	c	d	e	f	g	h	i	j	k	l	m
		General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures	Total exposure value	Own fund requirements				Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
		Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for non-trading book		Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		
010	Breakdown by country													
	United Kingdom	15,869.8	-	-	-	-	15,869.8	583.5	-	-	583.5	7,293.7	100%	2.00%
020	Total	15,869.8	0.0	0.0	0.0	0.0	15,869.8	583.5	0.0	0.0	583.5	7,293.7	100%	2.00%

Credit exposures relevant for the calculation of the countercyclical buffer is defined as excluding exposures to central banks, financial institutions, governments and local authorities. The totals shown above do not, therefore, agree to totals presented in other tables.

6.2. UK CCYB2 - AMOUNT OF INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

This table shows the derivation of the Group’s countercyclical buffer requirement, based on the total risk exposure amount shown in the table UK OV1 in Section 2, and the institution-specific CCyB rate derived in table UK CCYB1 above.

		a
1	Total risk exposure amount (£m)	8,278.7
2	Institution specific countercyclical capital buffer rate	2.00%
3	Institution specific countercyclical capital buffer requirement (£m)	165.6

7. Leverage ratio

This section sets out

- Summary reconciliation of accounting assets and leverage ratio exposures
- Leverage ratio disclosure
- On-balance sheet exposures
- Leverage qualitative information

Leverage is the relationship of a firm's capital to its total balance sheet assets (not adjusted for risk), both adjusted to a regulatory basis. The Group's calculation of its liquidity measures, in accordance with the requirements of the Rulebook is set out in the tables below.

7.1. UK LR1 - LRSUM: SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

		a
		Applicable amount
		£m
1	Total assets as per published financial statements	19,270.0
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
4	(Adjustment for exemption of exposures to central banks)	(2,319.3)
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) of the CRR)	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustment for eligible cash pooling transactions	-
8	Adjustment for derivative financial instruments	(237.1)
9	Adjustment for securities financing transactions (SFTs)	-
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	210.1
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	-
UK-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	-
UK-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) of the CRR)	-
12	Other adjustments	(115.8)
13	Total exposure measure	16,807.9

7.2. UK LR2 - LRCOM: LEVERAGE RATIO COMMON DISCLOSURE

		Leverage ratio exposures	
		a	b
		30 Sept 24	30 Sept 23
		£m	£m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral) ²	18,953.4	18,215.0
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Asset amounts deducted in determining tier 1 capital (leverage))	(191.0)	(167.4)
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	18,762.4	18,047.6
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	90.2	126.1
UK-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	64.5	53.5
UK-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	-	-
UK-9b	Exposure determined under the original exposure method	-	-
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-	-
UK-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-
UK-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	Total derivatives exposures	154.7	179.6
Securities financing transaction ('SFT') exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	-	-
UK 16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 of the CRR	-	-
17	Agent transaction exposures	-	-
UK 17a	(Exempted CCP leg of client-cleared SFT exposures)	-	-
18	Total securities financing transaction exposures	-	-
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	1,210.2	993.3
20	(Adjustments for conversion to credit equivalent amounts)	(1,000.1)	(815.7)
21	(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures)	-	-
22	Off-balance sheet exposures	210.1	177.6

Excluded exposures			
UK 22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	-	-
UK 22b	(Exposures exempted in accordance with point (j) of Article 429a(1) of the CRR (on- and off- balance sheet))	-	-
UK 22g	(Excluded excess collateral deposited at triparty agents)	-	-
UK 22k	(Total exempted exposures)	-	-
Capital and total exposure measure			
23	Tier 1 capital (leverage)	1,177.9	1,188.9
24	Total exposure measure including claims on central banks	19,127.2	18,404.9
UK- 24a	(-) Claims on central banks excluded	(2,319.3)	(2,825.6)
UK- 24b	Total exposure measure excluding claims on central banks	16,807.9	15,579.3
Leverage ratio			
25	Leverage ratio excluding claims on central banks (%)	7.0%	7.6%
UK- 25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	7.0%	7.6%
UK- 25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	7.0%	7.6%
UK- 25c	Leverage ratio including claims on central banks (%)	6.2%	6.5%
26	Regulatory minimum leverage ratio requirement (%)	N/A¹	N/A¹
Additional leverage ratio disclosure requirements - leverage ratio buffers			
27	Leverage ratio buffer (%)	N/A ¹	N/A ¹
UK- 27a	Of which: G-SII or O-SII additional leverage ratio buffer (%)	N/A ¹	N/A ¹
UK- 27b	Of which: countercyclical leverage ratio buffer (%)	N/A ¹	N/A ¹
Additional leverage ratio disclosure requirements - disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	N/A ¹	N/A ¹
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted off amounts of associated cash payables and cash receivables	N/A ¹	N/A ¹
UK- 31	Average total exposure measure including claims on central banks	N/A ¹	N/A ¹
UK- 32	Average total exposure measure excluding claims on central banks	N/A ¹	N/A ¹
UK- 33	Average leverage ratio including claims on central banks	N/A ¹	N/A ¹
UK- 34	Average leverage ratio excluding claims on central banks	N/A ¹	N/A ¹

Notes:

¹Annex XII 4a in the Disclosure (CRR) Part, requires only LREQ firms to disclose the lines marked UK LR2 26 and UK LR2 27 to 34. The Group is not large enough to qualify as an LREQ firm.

²On-balance sheet items (excluding derivatives, SFTs, but including collateral) is calculated by taking the total balance sheet assets (£19,270.0m) adjusting for fair value adjustments on loans to customers (£75.2m) and deducting derivative assets (£391.8m).

7.3. UK LR3 - LRSPL: SPLIT-UP OF ON BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

		a
		Leverage ratio exposure
		£m
UK-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	18,762.4
UK-2	Trading book exposures	-
UK-3	Banking book exposures, of which:	18,762.4
UK-4	Covered bonds	23.0
UK-5	Exposures treated as sovereigns	2,723.9
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	51.1
UK-7	Institutions	211.1
UK-8	Secured by mortgages of immovable properties	13,256.6
UK-9	Retail exposures	912.7
UK-10	Corporates	1,301.9
UK-11	Exposures in default	195.3
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	86.8

7.4. UK LRA: DISCLOSURE OF LR QUALITATIVE INFORMATION

(a) processes used to manage the risk of excessive leverage

The Group is not subject to the leverage ratio capital requirements. However, following the implementation of PS21/21: The UK leverage ratio framework, the PRA has confirmed that all firms not in scope of the leverage ratio capital requirements should manage their leverage risk such that their leverage ratio does not fall below 3.25%.

The Board recognises the importance of managing leverage which forms an essential part of capital planning and risk management. The Group's risk appetite statements set out the internal leverage ratio limits, targets and trigger points. The Group manages and plans to maintain capital in excess of the 3.25% minimum requirement throughout the forecast horizon in its baseline and stress scenarios.

The Group monitors its leverage ratio relative to its regulatory and internal requirements, alongside a comparison to peer organisations and the broader financial sector.

The current structure of the balance sheet returns a high leverage ratio. The Group's leverage ratio has remained well in excess of the 3.25% PRA guideline since the Bank's authorisation. This positive position will be maintained during the period covered by the business planning process, which will take account of stress testing impacts on the ratio.

(b) factors that had an impact on the leverage ratio during the period

The Group's leverage ratio, both including and excluding central bank claims, continued to show a reversion to more normal levels over the year. This reflects the inclusion in trading profits, and hence CET1, of the unwind of fair value hedge accounting gains recognised in the year ended 30 September 2022, which had temporarily inflated CET1 at that date. As the IFRS 9 reliefs are phased out the fully loaded and regulatory bases are automatically converging.

8. Liquidity requirements

This section sets out

- Liquidity risk management
- Liquidity Coverage Ratio ('LCR')
- Net Stable Funding Ratio ('NSFR')

Liquidity and funding risk is the risk that Paragon has insufficient financial resources to enable it to meet its obligations as they fall due or cannot raise or maintain sufficient funds to finance its future plans.

The Group holds 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. The Group's policy is to maintain strong levels of liquidity cover, and this policy impacts operational capital and funding requirements. The Group's 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 two key regulatory measures of liquidity are the Liquidity Coverage Ratio ('LCR') which measures resilience over a 30-day horizon and the Net Stable Funding Ratio ('NSFR'), which is a longer-term measure with a one-year horizon. Both are calculated on a common basis across the banking sector.

Liquidity is regulated at the level of Paragon Bank PLC, rather than at group level and liquidity measures for the Bank are presented below.

8.1. UK LIQA – LIQUIDITY RISK MANAGEMENT

(a) Strategies and processes in the management of the liquidity risk, including policies on diversification in the sources and tenor of planned funding

The Group manages its liquidity in line with the Board's risk appetite and the requirements of the PRA, which are formally documented in the ILAAP. The ILAAP is updated and approved by the Board annually, but it may be reviewed more frequently if there are material changes in the Group's business, including significant M&A activity. Comprehensive treasury policies and risk limits are in place to ensure sufficient liquidity is maintained, funding concentration risk is managed appropriately and that all financial obligations can be met as they fall due, even under stressed conditions. Liquidity risk is designated as a principal risk within the Group's overall ERM and subject to structured review and governance processes as described in template UK OVA in Section 3.1.

The Group maintains a diversified range of both retail and wholesale funding sources to cover current and future business requirements. It remains well placed to access funding from a wide range of sources, with access to the retail savings market having been effective during the year through both direct and intermediated deposit platform distribution channels. To supplement the existing RMBS issuance platform, the Group is in the process of establishing a covered bond programme which will further enhance access to wholesale funding markets.

(b) Structure and organisation of the liquidity risk management function

The management of the Group's liquidity is delegated by the Board to the Asset and Liability Committee ('ALCO') and implemented by the Group's Treasury function.

The Board, through the delegated authority provided to ALCO, sets limits on the minimum amount and composition of liquidity resources and on funding concentrations by channel, product type and maturity. Liquidity risk management is addressed by the ERM, in the same way as the management of other principal risks, and is subject to the 'three lines of defence' with Second Line oversight provided by the Prudential Risk function, and assurance provided by Third Line (Internal Audit), in addition to the controls operated in the Treasury function itself.

(c) A description of the degree of centralisation of liquidity management and interaction between the Group's units

The Group has a centralised Treasury function which is responsible for the day-to-day management of liquidity risk at the Bank level and for the Group as a whole. It is also responsible for the management of wholesale and contingent funding arrangements.

(d) Scope and nature of liquidity risk reporting and measurement systems

The Group's management information process includes the monitoring and reporting of liquidity and funding risk metrics. These include Key Risk Indicators ('KRIs'), lead indicators, and projected liquidity and funding requirements with the frequency of reporting depending on the materiality of the management information in the context of the Group's liquidity risk appetite.

Daily monitoring and reporting of regulatory and key management information is undertaken using the Group's liquidity and planning system, supplemented with information from the Treasury Management System. A weekly reporting pack and rolling liquidity forecast is produced by the liquidity and planning reporting system, and is reviewed by the Group's Liquidity Outlook Committee ('LOC') on a weekly basis. Key information is presented in the Treasury ALCO Report, which is reviewed by ALCO on a monthly basis.

(e) Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring their effectiveness

To mitigate liquidity risk the Group maintains a buffer of High-Quality Liquid Assets ('HQLA') and non-HQLA resources that is sufficient to withstand a severe, sustained outflow of funds in a combined idiosyncratic and market-wide stress, while maintaining access to a range of on balance sheet and contingent funding sources.

Comprehensive treasury policies are in place to ensure sufficient liquid assets are maintained and that all financial obligations can be met as they fall due, even under stressed conditions.

The Group has a dedicated Treasury function, which is responsible for the day-to-day management of overall liquidity and wholesale funding. Treasury operations are managed within an appropriately segregated structure with oversight from the second line Risk function.

The Board, through the delegated authority provided to the ALCO, sets limits for the level, composition and maturity of funding and liquidity resources. Board and ALCO limits to mitigate liquidity and funding risk are detailed in internal policies and are approved by the RCC on an annual basis.

On a weekly basis the LOC reviews key funding and liquidity data and a rolling liquidity forecast, ensuring that action is taken as appropriate. ALCO will review key data on a monthly basis.

(f) An outline of contingency funding plans

The Group maintains a diversified range of both retail and wholesale funding sources to cover current and future business requirements, and its internal processes, supported by external credit ratings give it the ability to access wholesale funding markets when appropriate. Its holdings of its own mortgage-backed securities, together with assets pre-positioned with the Bank of England, provides ready access to wholesale funding or liquidity if required.

The Group's contingency funding plan is fully integrated into the Recovery Plan ('RP') which is in turn integrated into the wider governance and risk management framework and is approved by the Board. The RP sets out indicators and trigger points that are used to identify early signs of a liquidity or funding stress, and the subsequent escalation process. The RP details a range of credible and viable recovery options which the Group could use to maintain and restore liquidity resources and considers their financial impact if implemented.

(g) An explanation of how stress testing is used

Stress testing is a risk management tool used to evaluate the potential impact of changes to liquidity risk factors (amongst other factors) on the financial strength and operational resilience of the Group, including its capital and liquidity positions. Stress testing exercises are conducted as part of the ILAAP, the corporate planning process, and the assessment of going concern in support of statutory reporting requirements. Stress testing is also conducted on an ad hoc basis in response to emerging or potential risks.

Liquidity stress testing is used to demonstrate overall liquidity adequacy by considering the impact of a range of severe but plausible stress scenarios on cash flows, liquidity resources, profitability, solvency, asset encumbrance and the funding profile over the survival horizon. Scenarios are selected both in order to meet regulatory requirements and to address factors specific to the Group's business model.

(h) A declaration approved by the management body on the adequacy of liquidity risk management arrangements

The ILAAP is approved by the Board on an annual basis and is the key document in demonstrating that the adequacy of liquidity risk management arrangements, liquidity resources and funding profile prudency, enables it to meet the threshold condition: business to be conducted in a prudent manner.

This threshold condition summarises the liquidity and funding risk appetite statement and risk strategy statement which are approved by the Board annually.

(i) A concise liquidity risk statement approved by the management body

The Group's management of liquidity and funding risk aims to ensure the Group has sufficient financial resources and a prudent funding profile to enable it to meet its obligations as they fall due, ensuring a sufficient buffer is maintained at all times.

8.2. UK LIQ1 – QUANTITATIVE INFORMATION OF LCR

The LCR is a measure of short-term resilience and compares available highly liquid assets to forecast short-term cashflows. It is calculated on a standard basis, prescribed by the regulator, with a 30-day horizon. LCR is monitored internally on a point-in-time basis, but the Rulebook requires disclosure on a 12-month rolling average basis. The nature of the inflows and outflows considered in the LCR are set out in the table below. The weightings applied are derived from regulatory requirements.

The LIQ1 data in the table below is calculated for Paragon Bank PLC on a rolling 12-month average basis.

		a	b	c	d	e	f	g	h
£m		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on (DD Month YYYY)	30-Sep-24	30-Jun-24	31-Mar-24	31-Dec-23	30-Sep-24	30-Jun-24	31-Mar-24	31-Dec-23
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					3,049.1	2,929.3	2,580.9	2,392.7
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	15,298.7	14,419.4	13,447.3	12,748.0	1,297.8	1,149.5	1,048.2	986.8
3	<i>Stable deposits</i>	<i>1,018.2</i>	<i>843.6</i>	<i>777.5</i>	<i>775.9</i>	<i>50.9</i>	<i>42.2</i>	<i>38.9</i>	<i>38.8</i>
4	<i>Less stable deposits</i>	<i>8,951.7</i>	<i>7,915.5</i>	<i>6,818.6</i>	<i>6,076.2</i>	<i>1,246.9</i>	<i>1,107.3</i>	<i>1,009.3</i>	<i>947.3</i>
5	Unsecured wholesale funding	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.5
6	<i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>	-	-	-	-	-	-	-	-
7	<i>Non-operational deposits (all counterparties)</i>	-	-	-	-	-	-	-	-
8	Unsecured debt	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.5
9	Secured wholesale funding					21.2	12.7	4.2	8.5
10	Additional requirements	219.2	210.9	200.5	189.4	219.2	210.9	200.5	189.4
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	<i>217.7</i>	<i>209.4</i>	<i>198.9</i>	<i>187.7</i>	<i>217.7</i>	<i>209.4</i>	<i>198.9</i>	<i>187.7</i>
12	<i>Outflows related to loss of funding on debt products</i>	-	-	-	-	-	-	-	-
13	<i>Credit and liquidity facilities</i>	<i>1.5</i>	<i>1.5</i>	<i>1.6</i>	<i>1.7</i>	<i>1.5</i>	<i>1.5</i>	<i>1.6</i>	<i>1.7</i>
14	Other contractual funding obligations	1,078.4	1,049.8	1,018.0	1,001.0	224.4	224.4	222.2	225.3
15	Other contingent funding obligations	46.0	41.5	75.3	72.1	22.4	18.9	52.6	50.0
16	TOTAL CASH OUTFLOWS					1,785.5	1,616.9	1,528.3	1,460.4

CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	146.2	135.2	132.6	119.3	76.7	71.5	69.5	61.1
19	Other cash inflows	267.4	265.6	274.8	264.1	256.2	256.2	265.7	255.6
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
UK-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	413.6	400.8	407.4	383.4	332.9	327.7	335.2	316.7
UK-20a	<i>Fully exempt inflows</i>	-	-	-	-	-	-	-	-
UK-20b	<i>Inflows subject to 90% cap</i>	-	-	-	-	-	-	-	-
UK-20c	<i>Inflows subject to 75% cap</i>	413.6	400.8	407.4	383.4	332.9	327.7	335.2	316.7
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER					3,049.1	2,929.3	2,580.9	2,392.7
22	TOTAL NET CASH OUTFLOWS					1,452.6	1,289.2	1,193.0	1,143.8
23	LIQUIDITY COVERAGE RATIO					211.5%	228.6%	218.2%	210.5%

8.3. UK LIQB - QUALITATIVE INFORMATION ON LCR, WHICH COMPLEMENTS TEMPLATE UK LIQ1

(a) Main drivers of LCR results

The principal drivers underlying the LCR calculation are a combination of the amount of High-Quality Liquid Assets ('HQLA'), stressed deposit net outflows, wholesale funding maturities, pipeline lending commitments and swap collateral outflows that could arise in a stress. As the Group is predominantly retail deposit funded, deposit outflows are the largest contributor to net outflows in the LCR.

The Group manages its cash inflows through the pricing, duration and availability of products, and the LCR at any point in time will reflect its strategic short-term cash requirements, including its plans for major outflows including the repayment of debt. The appropriate level of cash reserves is monitored on an ongoing basis as part of the 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.

The level of collateral accepted in respect of derivative transactions will also impact the LCR, with a high carrying value for derivative assets in the balance sheet tending to result in a higher level of collateral being held, which in turn affects the LCR.

(b) Explanations on the changes in the LCR over time

The Group's strong deposit flows in the year resulted in a twelve-month average LCR of 211.5% for the year (2023: 193.7%) and have facilitated significant repayments of wholesale funding in the year. These included the refinancing of £2.0 billion of the Group's TFSME drawings which reduced from an initial total of £2.75bn to £0.75bn as of 30 September 2024. The Group's last outstanding public securitisation and final retail bond were also repaid in the period.

The build-up of cash to meet these repayments elevated the LCR during the year, and with these payments largely completed by the year end, the ratio is expected to be managed at more normalised levels going forward, particularly if carrying values of derivative assets reduce over time, reducing collateral held.

(c) Explanations on the actual concentration of funding sources

The Group's primary source of funding is retail deposits, sourced both from its in-house operation, and through a presence on third party savings and wealth management platforms, providing access to a wider range of customers. This range of alternative routes to market optimises the Group's access to liquidity and is an important aspect of its diversified funding mix. Within its savings portfolio the Group maintains a diverse funding base, with risk appetite limits in place to manage funding concentrations by channel, customer, maturity and product type. Around 95% of the Group's savings deposits are FSCS covered.

This funding is supplemented with secured wholesale funding, including central bank funding, which are used as and when appropriate and cost effective. Access to wholesale funding sources, including contingent funding sources, provides an additional mitigant to any concentration risk.

The Group has also focussed on developing contingent funding sources as part of its 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 and provide a mitigant to any potential concentration risk.

(d) High-level description of the composition of the institution's liquidity buffer

The majority of the Bank's HQLA are comprised of cash held in the Bank's Bank of England Reserves Account. The Bank also holds UK Government securities ('gilts') and highly-rated covered bonds issued by UK financial institutions. The Bank's HQLA are all LCR Level 1 eligible and are under the day-to-day control of the Treasury function.

(e) Derivative exposures and potential collateral calls

The Group uses derivatives such as interest rate swaps for risk management purposes only. The Group does not operate a trading book. The LCR net cash outflows related to derivative transactions reflect the risk of potential additional collateral outflows due to adverse changes in market rates.

The Bank's internal assessment of liquidity requirements includes potential collateral calls which exceed the LCR's Historic Look-Back Approach for quantifying collateral outflow risk.

(f) Currency mismatch in the LCR

The vast majority of the Group's retail funding and lending business is denominated in UK pounds sterling, as is its HQLA balance. Therefore, the Group's currency mismatch risk for LCR purposes is immaterial.

(g) Other items in the LCR calculation that are not captured in the LCR disclosure template

There are no other relevant items.

8.4. UK LIQ2 – NET STABLE FUNDING RATIO ('NSFR')

The NSFR, which is calculated for the Bank on a standardised basis, is a measure of long-term liquidity, with a one-year horizon, and is used to monitor the Bank's strategic funding requirements. It represents the proportion of long-term assets funded by stable funding. 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.

The LIQ2 data in the table below is calculated for Paragon Bank PLC on a rolling 12-month average basis.

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
£m		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	1,276.5	-	-	149.7	1,426.2
2	Own funds	1,276.5	-	-	149.7	1,426.2
3	Other capital instruments		-	-	-	-
4	Retail deposits		10,100.5	3,177.7	2,300.5	14,303.3
5	Stable deposits		1,048.0	-	-	995.6
6	Less stable deposits		9,052.5	3,177.7	2,300.5	13,307.7
7	Wholesale funding:		77.7	-	1,575.0	1,575.0
8	Operational deposits		-	-	-	-
9	Other wholesale funding		77.7	-	1,575.0	1,575.0
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	-	768.0	65.2	2,168.9	2,201.5
12	NSFR derivative liabilities	-				
13	All other liabilities and capital instruments not included in the above categories		768.0	65.2	2,168.9	2,201.5
14	Total available stable funding ('ASF')					19,506.0
Required stable funding ('RSF') Items						
15	Total high-quality liquid assets ('HQLA')					0.4
UK-15a	Assets encumbered for more than 12m in cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		821.0	406.3	16,407.0	13,197.7
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
19	Performing securities financing transactions with financial customers collateralised by other assets and loans and advances to financial institutions		200.5	32.5	205.5	241.8
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		495.1	313.6	13,952.3	11,357.7
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		57.4	58.1	12,851.9	10,075.0
22	Performing residential mortgages, of which:		5.7	0.2	78.3	53.9
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		0.5	0.2	78.3	51.3

24	<i>Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products</i>		119.7	60.0	2,170.9	1,544.3
25	Interdependent assets		-	-	-	-
26	Other assets:	-	103.3	15.4	769.7	864.7
27	<i>Physical traded commodities</i>				-	-
28	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>				110.4	93.8
29	<i>NSFR derivative assets</i>				212.6	212.6
30	<i>NSFR derivative liabilities before deduction of variation margin posted</i>				3.4	0.2
31	<i>All other assets not included in the above categories</i>		103.3	15.4	443.3	558.1
32	Off-balance sheet items		1,161.1	-	-	58.0
33	Total RSF					14,120.8
34	Net Stable Funding Ratio (%)					138.2%

9. Exposures to credit risk and credit quality

This section sets out

- Risk management objectives and policies for credit risk
- Credit quality of assets
- Performing and non-performing exposures and related provisions
- Maturity of exposures
- Changes in stock of non-performing loans and advances and related net accumulated recoveries
- Credit quality of forborne exposures
- Collateral

This section provides information on the amounts and nature of the Group's credit risk exposures, which principally arise from its lending activities, but also include institutional exposures (to other banks and the Bank of England) relating to cash balances and exposures in respect of investment securities.

Assets below are classified according to regulatory categories, which differ from those which the Group uses to describe these balances in other external reporting.

9.1. UK CRA: GENERAL QUALITATIVE INFORMATION ABOUT CREDIT RISK

(a) **How the business model translates into the components of the Group's credit risk profile (in accordance with point (f) of Article 435(1) CRR)**

Credit risk is a fundamental risk that is inherent to the business model of the Group. The credit risk strategy is based on the management of that risk to support maximum value generation. The Group's credit risk strategy is to ensure that business growth is actively encouraged to achieve profit expansion, focussing on sectors where credit risk can be managed to a stable, low cost level. Growth is maximised within credit criteria that are consistent with minimal earnings' volatility. In order to achieve these aims, the Group focuses on business streams where it has specific expertise in order to control and mitigate its exposure to credit risk.

The Group Credit Risk Principal Risk Policy provides a structured and disciplined approach to the management of risk within agreed board risk appetites. The framework:

- establishes standards for the consistent identification, measurement, monitoring, management and reporting of credit risk exposure and loss experience
- outlines the approach that will be taken in respect of setting and defining risk appetite and risk tolerances
- promotes effective credit risk management across the Group, thereby supporting the delivery of credit performance within risk appetite

Risk appetite is described at a granular level, with policies aligning to that risk appetite. Risk appetite is expressed both qualitatively and quantitatively, with stated tolerances within which the business must operate.

(b) Strategies and processes to manage credit risk and the policies for hedging and mitigating that risk including the criteria and approach used for defining the credit risk management policy and for setting credit risk limits (in accordance with points (a) and (d) of Article 435(1) CRR)

The Group controls and mitigates credit risk by focussing on business streams where it has specific expertise. The Group has a robust limit framework supported by comprehensive policies that set out detailed criteria which must be met before loans are approved. A suite of scorecards and statistical models are utilised to measure and grade credit risk at both origination and throughout the customer life cycle.

Originated loan assets are subject to individual underwriting approval with robust control and support provided in most areas by well-established decision tools. Complementing these controls is an established quality assurance framework ensuring that underwriting standards are maintained.

Credit risks are managed effectively within the appetite set by the Board through:

- The evaluation of the credit risk exhibited by potential borrowers using a combination of lending policy criteria, credit assessment, policy rules and underwriting. Whilst the specific factors considered vary depending on the product line, these include borrower affordability, credit history and loan-to-value. In addition, confirmation of borrower identity is obtained. When considering applications, the primary focus is always placed on the individual or business's willingness and ability to repay
- The taking of security against the loan. For example, all mortgages are secured by way of a first legal charge against the property
- On-going monitoring of account performance. Loans which show signs of adverse performance are typically managed by specialist areas which manage collections and recovery processes

In terms of supporting collateral, the majority of the Group's loans by value continue to be secured against residential property in England and Wales at conservative loan-to-value levels.

Collections and arrears management processes are in place which are consistent with the Group's principle of treating customers in vulnerable circumstances fairly and supportively. These processes benefit from specialist staff.

The Group uses a range of sources to inform expectations of key external factors such as interest rate movements and house price inflation which are in turn used to guide policy and underwriting.

The Group applies maximum limits to risk concentrations, such as geographical spread and maximum exposure to individual customers. These limits are numerous and are tracked on a monthly basis by the Group's Credit Risk function, and reported monthly through the Credit Committee. Board and Executive Committee level metrics are then reported onwards. Potential areas of concentration relating not just to loan products but also covering borrower, asset, region, or large exposure risk for example, are therefore managed within defined limits.

The Group's largest portfolio concentration is that of buy-to-let mortgages. The Group has a very deep understanding of the private rented sector built up over many years of successful operations in the buy-to-let market. This includes a long history of performance data through the economic cycle together with regular independently conducted research commissioned over many years.

All buy-to-let mortgages and development finance loans are secured by way of a first legal charge on UK residential property, with additional charges and guaranties related to the build generally also required for development finance cases.

The primary collateral therefore benefits from the features of UK property which forms part of a highly mature, liquid, sustainable market demonstrated over many decades of operation.

The Group conducts valuations of properties given as security at the inception of loans and updates the valuations from time-to-time as part of its account management and arrears processes, typically conducting drive-by or full valuations as accounts move through arrears stages. All initial buy-to-let mortgage and development finance valuations, which form part of the underwriting process, are provided by Royal Institution of Chartered Surveyors ('RICS') qualified surveyors who undertake their assessment through an on-site, physical inspection of each property or site as appropriate.

Overall 99.4% of the Group's loan portfolio enjoys some form of security (2023: 99.4%), including 91.0% which is secured on property (2023: 91.7%).

Wholesale counterparty risk

Exposure to wholesale counterparty credit risk is limited to counterparties that meet specific credit rating criteria per the Group's comprehensive treasury policies.

Exposure to approved counterparties is monitored daily by senior management within the Group's treasury function with all exposure managed within approved limits. The credit rating of all treasury counterparties and the Group's exposure to them is reported monthly to ALCO.

Treasury counterparties are typically highly rated banks, including the Bank of England. All cash deposits and derivative positions held within the Group's securitisation structures must comply with criteria set out in the financing arrangements.

(c) The structure and organisation of the credit risk management and control function (in accordance with point (b) of Article 435(1) CRR)

A clear risk governance structure, as detailed in the ERMF, is in place to facilitate the oversight of credit risk and the broader requirements which underpin the identification, assessment, and management of risks across the Group.

The Board is the key governance body and is responsible for the Group's strategy, performance and for ensuring appropriate and effective risk management. The Board delegates the responsibility of risk management oversight across the Group to the RCC.

The Board has delegated responsibility for the day-to-day running of the business to the CEO. The CEO is supported in performing these day-to-day activities through designated executive sub-committees, one of which, the ERC, is responsible for adherence to board and executive risk appetites, risk appetite statements, risk triggers and thresholds, risk profile and risk strategy.

Established under the authority of the ERC is the Credit Committee. The Credit Committee is the primary management committee responsible for the management of credit risk and credit risk related issues. The Credit Committee is authorised by the ERC to oversee the management of credit risk within the Board's risk appetite. The committee is responsible for oversight and advice to the ERC covering areas of credit policy, analytics, credit risk monitoring, credit risk quality, and risk oversight throughout the customer life cycle.

The Credit Committee is chaired by the Credit Risk Director, who is the head of the second line Credit Risk function. This division supports the Credit Committee in its work and monitors and analyses the Group's credit performance independently of the business areas.

(d) The relationships between credit risk management, risk control, compliance and internal audit functions (in accordance with point (b) of Article 435(1) CRR)

The 'Three Lines of Defence' model (Detailed in Section 3.1, template UK OVA (b)) has been adopted as the overarching approach to risk management within the Group. The model ensures appropriate responsibility is allocated for the management, reporting and escalation of risk. Allocation of clear responsibilities for credit risk management ensures risks are identified, monitored, managed, and mitigated where required in order that they remain within the Board's risk appetite.

The first line of defence is represented by the business divisions who are responsible for the initial assessment and management of credit risk. These responsibilities include measuring and managing the business in accordance with credit risk appetite as well as identifying and reviewing all material and emerging credit risks. The first lines operate within delegated mandate authorities and are responsible for reporting any breach of credit policy.

The second line Credit Risk function provides oversight and challenge to the first line's management of credit risk. The team provides day-to-day control and oversight of the risks associated with lending through a combination of standard risk management principles and modelling technology. This includes assessment of new business quality, monitoring lending performance and developing and maintaining application processing decision systems. Quality assurance is provided through an extensive and mature framework, complementing the quantitative elements of credit risk management. Outputs from quality assurance assessments are reported through the Credit Committee. The Credit Risk team also monitors the lending control structures to ensure compliance with the Group's Credit Policies.

Internal Audit acts as the third line of defence. It independently challenges the overall management of credit risk including assessing the adequacy and effectiveness of the Group Credit Risk Policy and key credit risk controls. It is responsible for assurance in respect of control monitoring and testing whilst also independently assessing all aspects of the rating systems, including model components (such as Probability of Default ('PD'), loss given default ('LGD') and exposure at default ('EAD')), data integrity, model lifecycle processes and credit approval processes.

Internal and external audit provide assurance to the Audit Committee and senior management on the adequacy of both the first and second lines.

9.2. UK CRR: ADDITIONAL DISCLOSURE RELATED TO THE CREDIT QUALITY OF ASSETS

(a) The scope and definitions of 'past-due' and 'impaired' exposures used for accounting purposes and the differences, if any, between the definitions of past due and default for accounting and regulatory purposes (in accordance with Article 178 CRR)

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. Such accounts are referred to, in the context of IFRS 9, as 'Stage 3' accounts.

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 a trigger indicating a Significant Increase in Credit Risk ('SICR') 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. The definition of default used for accounting purposes is materially aligned to that used for regulatory purposes.

For the majority of its portfolios the Group uses arrears multiples as a proxy for days past due, with the arrears multiple defined as the overdue balance outstanding divided by the expected monthly payment. A loan will therefore generally be considered one month past due from the point at which a full payment is one day overdue until it is 30 days overdue. For some portfolios, including the Group's development finance book, regular payments are not required, therefore the past due test is less relevant in managing credit.

(b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this

All assets more than 90 days past due are treated as impaired, even where cases are being managed in the expectation of realising all of the carrying value.

(c) Description of methods used for determining general and specific credit risk adjustments

Specific credit risk adjustments represent loan-by-loan impairments determined using an expected credit loss basis in accordance with IFRS 9. All loans are considered for provision, and an impairment amount calculated based on each account's probability of default. The expected credit loss represents the probability weighted exposure at default reduced by the value of any security.

For the Group's largest portfolios statistical models form the basis of the expected loss calculation. However where the number of accounts in a portfolio is smaller, as is the case in the development finance business, loss expectations will be formed on the basis of the Group's internal monitoring for each account.

The Group does not have any general credit risk adjustments; therefore all provisions are considered specific credit risk adjustments.

(d) Definition of a restructured exposure (point (d) of Article 178(3) CRR)

The Group does not at present have a formalised definition of a restructured exposure and a definition will be formalised as part of the IRB application process.

9.3. UK CR1: PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS

The asset classes used in template CR1 below are regulatory classes prescribed in the template by the PRA and therefore will not reconcile to the accounting disclosures line by line. They do, however reconcile to the balance sheet in total, as set out at the foot of the table.

£m		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions									Accumulated partial write-off
		Performing exposures			Non-performing exposures ¹			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures	
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3				
005	Cash balances at central banks and other demand deposits	2,525.4	2,525.4	-	-	-	-	-	-	-	-	-	-	-	-	-	
010	Loans and advances	15,481.3	14,705.2	776.1	300.7	-	300.7	23.2	16.0	7.2	53.3	-	53.3	-	14,075.1	144.2	
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
030	General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
040	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
050	Other financial corporations	257.9	255.1	2.8	-	-	-	1.0	1.0	-	-	-	-	-	-	-	
060	Non-financial corporations	9,468.9	9,036.8	432.1	162.3	-	162.3	17.2	12.3	4.9	34.4	-	34.4	-	8,360.2	34.7	
070	Of which SMEs	7,848.4	7,572.3	276.1	46.4	-	46.4	4.3	3.0	1.3	12.4	-	12.4	-	7,826.1	32.3	
080	Households	5,754.5	5,413.3	341.2	138.4	-	138.4	5.0	2.7	2.3	18.9	-	18.9	-	5,714.9	109.5	
090	Debt securities	427.4	427.4	-	-	-	-	-	-	-	-	-	-	-	-	-	
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
110	General governments	404.4	404.4	-	-	-	-	-	-	-	-	-	-	-	-	-	
120	Credit institutions	23.0	23.0	-	-	-	-	-	-	-	-	-	-	-	-	-	
130	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
140	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

150	Off-balance-sheet exposures	1,210.2	1,210.2	-	-	-	-	-	-	-	-	-	-	-	-	-
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
170	General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
180	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
190	Other financial corporations	70.4	70.4	-	-	-	-	-	-	-	-	-	-	-	-	-
200	Non-financial corporations	972.1	972.1	-	-	-	-	-	-	-	-	-	-	-	-	-
210	Households	167.7	167.7	-	-	-	-	-	-	-	-	-	-	-	-	-
220	Total	19,644.3	18,868.2	776.1	300.7	-	300.7	23.2	16.0	7.2	53.3	-	53.3	-	14,075.1	144.2

Notes:

¹Non-performing exposures are those accounts classified as stage 3, principally those over 90 days in arrears and those in receiver of rent.

²Collateral has been disclosed as the maximum amount of the collateral or guarantee that can be considered, being the lower of security value or balance, primarily disclosed for mortgages and motor finance accounts.

The amounts above reconcile to the Group balance sheet at 30 September 2024 as shown below.

£m	Gross carrying amount		Accumulated impairment		Net carrying amount	Balance sheet
	Performing exposures	Non-performing exposures	Performing exposures	Non-performing exposures		
Cash balances (line 005)	2,525.4	-	-	-	2,525.4	Line 1 + Line 2
Loans to customers (line 010)	15,481.3	300.7	(23.2)	(53.3)	15,705.5	Line 4
Debt securities (line 090)	427.4	-	-	-	427.4	Line 3

9.4. UK CR1-A: MATURITY OF EXPOSURES

		a	b	c	d	e	f
		Net exposure value ¹					
£m		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	-	970.6	2,506.4	12,228.5	-	15,705.5
2	Debt securities	-	-	23.0	404.4	-	427.4
3	Total	-	970.6	2,529.4	12,632.9	-	16,132.9

Note:

¹For regulatory reporting purposes, maturity of exposures is reported at Bank level only and therefore template UK CR1-A has been reported for the Bank and will not reconcile to the Group Accounts.

9.5. UK CR2: CHANGES IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES

		a
		Gross carrying amount
		£m
010	Initial stock of non-performing loans and advances	230.8
020	Inflows to non-performing portfolios	175.7
030	Outflows from non-performing portfolios	(22.1)
040	Outflows due to write-offs	(23.5)
050	Outflow due to other situations ¹	(60.2)
060	Final stock of non-performing loans and advances	300.7

Note:

¹Outflows due to other situations includes repayments of £87.0m.

9.6. UK CR2A: CHANGES IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES AND RELATED NET ACCUMULATED RECOVERIES

Template CR2a is applicable to large institutions only. As the Group does not qualify as large, this template has not been presented.

9.7. UK CQ1: CREDIT QUALITY OF FORBORNE EXPOSURES

The Group does not apply a regulatory definition of forbearance and therefore template CQ1 has not been presented.

9.8. UK CQ2: QUALITY OF FORBEARANCE

Template CQ2 is applicable to large institutions only. As the Group does not qualify as large, this template has not been presented.

9.9. UK CQ3: CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
	£m	Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	2,525.4	2,525.4	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	15,481.3	15,413.5	67.8	300.7	163.8	50.8	26.3	24.7	5.5	1.9	27.7	300.7
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
050	Other financial corporations	257.9	257.9	-	-	-	-	-	-	-	-	-	-
060	Non-financial corporations	9,468.9	9,449.2	19.7	162.3	129.2	9.0	5.3	6.2	0.6	-	12.0	162.3
070	Of which SMEs	7,848.9	7,832.3	16.6	46.4	16.5	7.0	4.7	5.7	0.5	-	12.0	46.4
080	Households	5,754.5	5,706.4	48.1	138.4	34.6	41.8	21.0	18.5	4.9	1.9	15.7	138.4
090	Debt securities	427.4	427.4	-	-	-	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	404.4	404.4	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	23.0	23.0	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
150	Off-balance-sheet exposures												-
160	Central banks												-
170	General governments												-
180	Credit institutions												-
190	Other financial corporations												-
200	Non-financial corporations												-
210	Households												-
220	Total	18,434.1	18,366.3	67.8	300.7	162.9	51.2	26.5	24.9	5.6	1.9	27.7	300.7

9.10. UK CQ4: QUALITY OF NON-PERFORMING EXPOSURES BY GEOGRAPHY

This template is subject to a 10% threshold (non-domestic exposures divided by total exposures) set out in the Disclosure (CRR) Part. The Group has no non-domestic exposures (exposures outside the UK) and therefore UKCQ4 has not been presented.

9.11. UK CQ5: CREDIT QUALITY OF LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS BY INDUSTRY

		a	b	c	d	e	f
£m			Gross carrying amount			Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
010	Agriculture, forestry and fishing	21.2		0.5		0.2	-
020	Mining and quarrying	-		-		-	-
030	Manufacturing	69.3		0.8		0.8	-
040	Electricity, gas, steam and air conditioning supply	-		-		-	-
050	Water supply	-		-		-	-
060	Construction	1,204.0		112.6		28.1	-
070	Wholesale and retail trade	16.0		0.2		0.2	-
080	Transport and storage	178.7		1.3		1.5	-
090	Accommodation and food service activities	2.8		0.1		0.1	-
100	Information and communication	15.5		0.6		0.3	-
110	Financial and insurance activities	113.6		0.2		1.6	-
120	Real estate activities	7,841.0		45.6		16.2	-
130	Professional, scientific and technical activities	-		-		-	-
140	Administrative and support service activities	81.5		-		2.3	-
150	Public administration and defence, compulsory social security	29.6		-		-	-
160	Education	12.2		-		0.1	-
170	Human health services and social work activities	9.8		-		-	-

180	Arts, entertainment and recreation	-		-		-	-
190	Other services	35.9		0.3		0.2	-
200	Total	9,631.1		162.2		51.6	-

Note:

¹Columns b and d are not applicable under Article 442 as they are only applicable to large institutions. The Group does not meet the size criteria for a large institution.

9.12. UK CQ6: COLLATERAL VALUATION - LOANS AND ADVANCES

This template applies to large institutions only. As the Group does not meet the criteria for a large institution, template UK CQ6 has not been presented.

9.13. UK CQ7: COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES

No collateral taken into possession is recognised on the balance sheet and therefore template UK CQ7 has not been presented.

9.14. UK CQ8: COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES – VINTAGE BREAKDOWN

This template applies to large institutions only. As the Group does not meet the criteria for a large institution, template UK CQ6 has not been presented.

10. Credit risk mitigation

This section sets out

- Credit Risk mitigation ('CRM') techniques

Credit risk mitigation, for regulatory capital purposes, relates to financial arrangements to reduce risk exposure for which a benefit can be received in the calculation of capital requirements.

Economically, the Group's principal sources of mitigation against credit loss, other than the quality of its underwriting and account management processes, is the value of assets securing loan accounts, such as properties securing mortgages and assets financed by finance leases. However, this security is not included as CRM for the purposes of calculating capital requirements.

For certain authorised loan schemes within the SME lending operation, the Group has access to guarantees from the UK Government, initially offered as a response to the Covid pandemic in 2020, and continued in various forms since then. These guarantees apply to all live loans made under those schemes.

10.1. UK CRC – QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO CRM TECHNIQUES

(a) Core policies and processes for on- and off-balance sheet netting and the extent to which they are used (Article 453 (a) CRR);

The Group does not utilise either on or off-balance sheet netting.

(b) The core features of policies and processes for eligible collateral evaluation and management (Article 453 (b) CRR);

All collateral allowed for in the Group's capital calculations is in the form of either cash or guarantees from the UK Government and is provided on the basis of standard contractual arrangements for the financial assets involved. It is used for credit mitigation in the calculation of collateral and financial guarantees received in table UK CR1.

The form of credit risk mitigation employed for treasury transactions is determined by the nature of the instrument. ISDA (International Swaps and Derivatives Association) Master Agreements are completed with each derivative counterparty, including a Credit Support Annex ('CSA'), allowing for the exchange of collateral to mitigate the credit risk of the derivatives portfolio. This includes exposures to LCH Limited ('LCH'), the central counterparty that the Group has cleared derivatives with since 2019.

Under ISDA Master Agreements the derivatives portfolio is typically valued using discounted cash flow and options pricing models as appropriate. The terms of a CSA allow for collateral to be passed between parties to mitigate the counterparty credit risk inherent in the outstanding positions. The Group's CSAs are two-way agreements where both parties can be required to post collateral dependent on the exposure of the derivative. Collateral in the form of cash is paid or received on a regular basis (typically daily) to mitigate the mark-to-market exposures.

CSAs grant legal rights of set-off for transactions with the same counterparty. Accordingly, the credit risk associated with such positions is reduced to the extent that negative mark-to-market values offset positive mark-to-market values in the calculation of credit risk within each netting agreement.

(c) Main types of collateral taken to mitigate credit risk (Article 453 (c) CRR);

The Group typically posts and receives cash to mitigate credit risk arising from derivatives; however the Group's securitisation documentation allows for other types of collateral, including bonds issued by governments (including those of the UK, USA and EU member states), to be received in place of cash.

The Group's first and second mortgage assets, car and asset lease finance accounts, development finance accounts, structured lending facilities and invoice finance accounts are all secured on the value of the assets financed, but these do not qualify as CRM for capital calculations.

(d) Guarantees and credit derivatives used as credit protection (Article 453 (d) CRR);

The Group does not utilise credit derivatives and the only guarantees used as credit protection are those provided by the UK Government relating to loans made under the Coronavirus Business Interruption Loans Scheme ('CBILS'), Bounce-back Loan Scheme ('BBLs'), Recovery Loan Scheme ('RLS') and Growth Guarantee Scheme ('GGS'). The impact of this guarantee on the Group's capital position is shown in table UK CR4 in Section 11.2.

(e) Information about market or credit risk concentrations within the credit mitigation taken (Article 453 (e) CRR);

No significant concentrations noted.

10.2. UK CR3 – CRM TECHNIQUES OVERVIEW: DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

This table includes all amounts shown as 'Loans and advances' and 'debt securities' in table UK CR1.

		a	b	c	d	e
		Unsecured carrying amount	Secured carrying amount			
			Of which secured by collateral ¹	Of which secured by financial guarantees		Related net accumulated recoveries
		£m	£m	£m	£m	£m
1	Loans and advances	1,486.2	14,219.3	14,219.3	-	-
2	Debt securities	404.4	23.0	23.0	-	
3	Total	1,890.6	14,242.3	14,242.3	-	-
4	<i>Of which non-performing exposures</i>	103.2	144.2	144.2	-	-
5	<i>Of which defaulted</i>	103.2	144.2			

Notes:

¹Collateral for loans and advances has been disclosed as the maximum amount of the collateral or guarantee that can be considered, being the lower of security value or balance, primarily disclosed for mortgages and motor accounts, although such amounts do not qualify as CRM for regulatory purposes. Covered bonds included in debt securities are considered to be fully collateralised.

11. Standardised approach to credit risk

This section sets out

- Qualitative disclosure requirements
- Credit risk exposure and CRM effects
- Exposure by risk weighting

The Group evaluates the RWEAs in respect of credit risk for its assets, excluding derivatives, using the Standardised Approach ('SA') set out in the Rulebook. Permission is being sought to use an Internal Ratings Based ('IRB') approach for some asset classes, but this has not yet been granted.

The tables in this section explain how those RWEAs are derived.

11.1. UK CRD – QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO STANDARDISED MODEL

(a) Names of the external credit assessment institutions ('ECAI's) and export credit agencies used ('ECA's) (Article 444 (a) CRR);

ECAs used by the Group are Fitch, Standard and Poor's and Moody's. There have been no changes to these over the disclosure period.

The Group has not made use of ECAs.

(b) The exposure classes for which each ECAI or ECA is used (Article 444 (b) CRR);

Ratings issued by the ECAs listed above are used to attributed risk weightings to institutional exposures in both the SA for bank deposits and in the SA-CCR for derivative exposures (see Section 12 – Exposure to Counter-party Credit Risk). For debt securities issued by institutions the Group uses publicly available ratings for the particular instrument issued by ECAs to attribute risk weightings.

The Group does not use ECAs for other credit risk exposure classes under the standardised approach.

(c) The process used to transfer the issuer and issue credit ratings onto comparable assets items not included in the trading book (Article 444 (c) CRR);

The Group does not operate a trading book.

(d) The association of the external rating of each nominated ECAI or ECA with the risk weights that correspond with the credit quality steps (Article 444 (d) CRR).

The ratings from the ECAs are mapped across to the Credit Quality Step requirements in the UK CRR using PRA rulebook mappings.

11.2. UK CR4 – STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS

This table summarises the RWA treatment for all balance sheet assets subject to the Credit Risk Framework. All of the Group's assets to which the Credit Risk Framework applies are currently subject to the Standardised Approach and therefore the total of column a is equal to the amount shown in line 3 of table UK LI2 in Section 4.2 (£18,759.7m), with the addition of the IFRS 9 transition adjustment (£2.7m), shown on line 7 of the same table. Table UK LI2, together with table UK LI1, therefore reconciles the disclosures given below to the Group's reported balance sheet.

		a	b	c	d	e	f
		Exposures before CCF and before CRM		Exposures post CCF ¹ and post CRM ²		RWAs and RWAs density	
£m		On-balance-sheet exposures ³	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%) ⁴
1	Central governments or central banks	2,723.9	-	2,756.2	-	-	0.0%
2	Regional government or local authorities	51.1	15.3	51.1	3.1	10.7	19.7%
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-
6	Institutions	211.1	-	211.1	-	42.6	20.2%
7	Corporates	460.6	88.6	460.6	38.8	468.1	93.7%
8	Retail	912.7	93.3	880.4	18.7	566.0	63.0%
9	Secured by mortgages on immovable property	13,256.6	380.1	13,256.6	76.0	4,705.5	35.3%
10	Exposures in default	195.3	-	195.3	-	197.6	101.2%
11	Exposures associated with particularly high risk	841.3	632.9	841.3	12.8	1,281.2	150.0%
12	Covered bonds	23.0	-	23.0	-	2.3	10.0%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	86.8	-	86.8	-	77.1	88.8%
17	TOTAL	18,762.4	1,210.2	18,762.4	149.4	7,351.1	38.9%
Total on and off balance sheet		19,972.6		18,911.8			
				See table UK LI2	See table UK CR5	See table UK OV1	

Notes:

¹Credit Conversion Factor ('CCF'). This represents the proportion of that part of the off-balance sheet exposures representing lending pipelines which are expected to complete as advances, for capital purposes.

²The only form of Credit Risk Mitigation ('CRM') applied in this table is the availability of UK Government guarantees on certain SME lending exposures. In the table this has the effect of moving the exposure from the 'retail' line (line 8) to the 'Central governments or central banks' line (line 1).

³Including adjustment for IFRS 9 impairment relief (see Section 2.3).

⁴RWAs density % is calculated as RWA as a percentage of the sum of on-balance-sheet and off-balance-sheet amounts (e / (c + d)).

11.3. UK CR5 – STANDARDISED APPROACH

Exposures analysed in this table are post-CCF and post-CRM and include both on and off balance sheet amounts (the sum of the amounts shown in columns c and d in table UK CR4 above). In allocating exposures to risk weights, no account is taken of the SME supporting factor.

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
£m		Risk weight															Total	Of which unrated ¹
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
1	Central governments or central banks	2,756.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,756.2	-
2	Regional government or local authorities	-	-	-	-	54.2	-	-	-	-	-	-	-	-	-	-	54.2	54.2
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	209.9	-	1.2	-	-	-	-	-	-	-	-	211.1	-
7	Corporates	-	-	-	-	-	-	-	-	-	499.4	-	-	-	-	-	499.4	499.4
8	Retail exposures	-	-	-	-	-	-	-	-	899.1	-	-	-	-	-	-	899.1	899.1
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	13,267.8	-	-	12.0	52.8	-	-	-	-	-	13,332.6	13,332.6
10	Exposures in default	-	-	-	-	-	-	-	-	-	192.2	3.1	-	-	-	-	195.3	195.3
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	854.1	-	-	-	-	854.1	854.1
12	Covered bonds	-	-	-	23.0	-	-	-	-	-	-	-	-	-	-	-	23.0	-
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Other items ²	9.7	-	-	-	-	-	-	-	-	77.1	-	-	-	-	-	86.8	86.8
17	Total	2,765.9	-	-	23.0	264.1	13,267.8	1.2	-	911.1	821.5	857.2	-	-	-	-	18,911.8	15,921.5
																	Table UK CR4	

Notes:

¹'Of which unrated' are those exposures for which a credit assessment by a nominated ECAI is not available and that are applied specific risk weights depending on their exposure class, as specified in Article 113 to Article 134 CRR.

²Other items risk weighted at 0% are principally deferred tax assets.

12. Exposures to counterparty credit risk

This section sets out

- Counterparty credit risk ('CCR') methodology and policies
- CCR exposure by approach
- Transactions subject to own funds requirements for CVA risk
- CCR exposures by regulatory exposure class and risk weights
- Composition of collateral for CCR exposures
- Credit derivative exposures
- Exposures to CCPs

The Group's policies for counterparty credit risk, which are described below, relate to all central bank and institutional exposures. Such exposures are subject to different management and control processes to those governing its lending to customers.

However, the definition in the Rulebook relates to derivative assets and liabilities only, which are subject to special rules for the calculation of RWEA. The tables in this section relate only to items considered to represent exposure to counterparty credit risk according to the Rulebook.

12.1. UK CCRA – QUALITATIVE DISCLOSURE RELATED TO CCR

(a) Methodology used to assign internal capital and credit limits for counterparty credit exposures (Article 439 (a) CRR)

Wholesale counterparty credit risk arises in the normal course of business primarily from investment of surplus cash, collateral and executing hedging derivatives with wholesale counterparties. The Group's cash balances are held in sterling at the Bank of England and at a small number of highly rated banks in current accounts, and, from time-to-time, as short fixed-term money market deposits. The Group also invests in UK Government securities ('gilts') and covered bonds issued by UK financial institutions.

Exposures to derivatives counterparties are calculated using the Standardised Approach for Counterparty Credit Risk ('SA-CCR'), which includes exposures to central counterparties ('CCPs'). The Group has been centrally clearing certain eligible derivatives with a CCP since 2019.

The SA-CCR methodology considers the fair value and collateral held in the calculation of 'Replacement cost'. The exposure value to the counterparty is multiplied by a counterparty risk-weight based on its external credit assessment (Section 11.1, UK CRD) to determine the total Risk Weighted Exposure Amount ('RWEA'), which determines the level of capital required for counterparty credit risk.

In order to adhere to the Large Exposures regulatory requirements, a firm's exposures to a counterparty or connected counterparties must not exceed 25% of its eligible capital. To provide a buffer against the regulatory limit, the Group's counterparty credit limits for its exposures (including connected counterparties) are set within this. Credit risk limits are determined by a combination of factors including the counterparty's credit rating and its balance sheet size.

Credit risk limits for all counterparties are reviewed at least annually and any changes in credit rating or outlook are provided to ALCO monthly. There are minimum credit rating requirements for wholesale counterparty exposures.

The Group does not assign internal capital, therefore methodology to assign is not applicable.

(b) Policies related to guarantees and other credit risk mitigants (Article 439 (b) CRR)

The Group uses derivatives to reduce exposure to market risks, which creates counterparty credit risk. These instruments are transacted with institutions which meet a minimum credit rating criteria and are subject to collateral provisions under market standard documentation.

The majority of new derivatives are centrally cleared through a Central Counterparty ('CCP'), LCH Limited ('LCH'), for which the Group posts variation and initial margin. For any uncleared derivatives, principally those linked to securitisation transactions, the Group's method of documenting derivative activity is the International Swaps and Derivatives Association ('ISDA') Master Agreement. In all such cases a Credit Support Annex ('CSA') is executed in conjunction with the ISDA Master Agreement to mitigate credit risk.

Collateralisation of derivatives introduces the following material change in credit exposure:

- The posting of collateral reduces the impact of the current market value to the difference between the market value of the derivatives and the value of the collateral. This difference is limited by the operational use of 'thresholds' and 'minimum transfer amounts', which set criteria to avoid the movement of small amounts of collateral. For derivatives in certain funding structures, the swap counterparties are only required to post collateral if they do not meet minimum credit rating criteria.

Derivative positions and collateral are valued daily and compared with counterparty valuations to agree collateral settlement. Market standard CSA collateral allows UK pounds sterling cash or gilts to be held as collateral by the Group.

Guarantees are not used to mitigate counterparty credit risk.

(c) Description of policies with respect to Wrong-Way risk (Article 439 (c) CRR)

"Wrong-way risk" is defined by CRR Article 291 and may occur when:

- (a) the likelihood of default by a counterparty is positively correlated with general market risk factors; or
- (b) future exposure to a specific counterparty is positively correlated with the counterparty's probability of default.

The structure of the relationships with the Group's counterparties does not generate material wrong-way risk.

(d) Any other risk management objectives and relevant policies related to CCR (Article 431 (3) and (4) CRR)

The Group enters into repurchase agreements under the terms of the Global Master Repurchase Agreements with its counterparties. These transactions demonstrate the Group's ability to raise additional funding or monetise the Liquid Asset Buffer and have primarily been used to exchange retained securitisation notes in exchange for cash or gilts.

(e) The amount of collateral the Group would have to provide if its credit rating was downgraded (Article 439 (d) CRR)

There are no agreements which would require the Group to post collateral based on changes to the credit rating of either the Bank or the Group.

12.2. UK CCR1 – ANALYSIS OF CCR EXPOSURE BY APPROACH

		a	b	c	d	e	f	g	h
£m		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM ²	Exposure value post-CRM	Exposure value	RWEA
UK1	Original Exposure Method (for derivatives)	-	-		-	-	-	-	-
UK2	Simplified SA-CCR (for derivatives)	-	-		-	-	-	-	-
1	SA-CCR (for derivatives) ¹	162.1	46.1		1.4	291.4	154.7	154.7	50.4
2	IMM (for derivatives and SFTs)	-	-	-	-	-	-	-	-
2a	<i>Of which securities financing transactions netting sets</i>	-	-	-	-	-	-	-	-
2b	<i>Of which derivatives and long settlement transactions netting sets</i>	-	-	-	-	-	-	-	-
2c	<i>Of which from contractual cross-product netting sets</i>	-	-	-	-	-	-	-	-
3	Financial collateral simple method (for SFTs)	-	-	-	-	-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	Total					291.4	154.7	154.7	50.4
							See table UK LI2		See table UK OV1

Notes:

¹Under SA-CCR, exposure value post-CRM, being the exposure value adjusted for CRM techniques (the impact of collateral), is the sum of RC (a) and PFE (b) multiplied by alpha of 1.4 (d) as prescribed by the PRA Rulebook. RWEA is the sum of the risk weighted counterparty exposures, which are weighted at either 50% or 20% dependent on PRA Rulebook ECAI mapping credit quality steps ('CQS') for uncleared balances or 4% for those cleared through the QCCP (Section 12.8 UK CCR8).

²Exposure value Pre-CRM is the exposure value calculated without the effect of CRM techniques, being the consideration of collateral ('margining').

12.3. UK CCR2 – TRANSACTIONS SUBJECT TO OWN FUNDS REQUIREMENTS FOR CVA RISK

		a	b
		Exposure value	RWEA
1	Total transactions subject to the Advanced method	-	-
2	<i>(i) VaR component (including the 3x multiplier)</i>		-
3	<i>(ii) stressed VaR component (including the 3x multiplier)</i>		-
4	Transactions subject to the Standardised method	96.3	29.2
UK4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-	-
5	Total transactions subject to own funds requirements for CVA risk	96.3	29.2
			See table UK OV1

Notes:

¹Credit valuation adjustment applied to calculate total risk weighted exposure amounts in Section 2.1, template UK OV1.

12.4. UK CCR3 – STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY EXPOSURE CLASS AND RISK WEIGHTS

This table shows the various risk weights applied to the exposures shown in table CCR1 to derive the appropriate RWEA.

		a	b	c	d	e	f	g	h	i	j	k	l
		Risk weight											Total exposure value
	Exposure Classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	58.4	-	-	96.3	-	-	-	-	-	154.7
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-
11	Total exposure value	-	-	58.4	-	-	96.3	-	-	-	-	-	154.7
													Table UK CCR 1

12.5. UK CCR4 – IRB APPROACH – CCR EXPOSURES BY EXPOSURE CLASS AND PD SCALE

This template applies to institutions that calculate the risk-weighted exposure amounts under the IRB approach. The Group does not use IRB and therefore UK CCR4 has not been presented.

12.6. UK CCR5 – COMPOSITION OF COLLATERAL FOR CCR EXPOSURES

Template CCR5 disclosure is only required under Article 438 (e) if both the fair value of collateral posted in the form of debt securities and the fair value of collateral received in that form exceed £125.0 billion. The Group does not exceed this threshold and therefore this template has not been presented.

12.7. UK CCR6 – CREDIT DERIVATIVES EXPOSURES

The Group does not use credit derivatives to mitigate credit risk and therefore template UK CCR6 has not been presented.

12.8. UK CCR7 – RWEA FLOW STATEMENTS OF CCR EXPOSURES UNDER THE IMM

The Group does not use the Internal Model Method ('IMM') for CCR exposures and therefore template UK CCR7 has not been presented.

12.9. UK CCR8 – EXPOSURES TO CCPS

		a	b	
	£m	Exposure value	RWEA	
1	Exposures to QCCPs¹ (total)		2.3	See table UK OV1
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	58.4	2.3	
3	(i) OTC derivatives	58.4	2.3	
4	(ii) Exchange-traded derivatives	-	-	
5	(iii) SFTs	-	-	
6	(iv) Netting sets where cross-product netting has been approved	-	-	
7	Segregated initial margin	125.4		
8	Non-segregated initial margin	-	-	
9	Prefunded default fund contributions	-	-	
10	Unfunded default fund contributions	-	-	
11	Exposures to non-QCCPs (total)		-	
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-	
13	(i) OTC derivatives	-	-	
14	(ii) Exchange-traded derivatives	-	-	
15	(iii) SFTs	-	-	
16	(iv) Netting sets where cross-product netting has been approved	-	-	
17	Segregated initial margin	-		
18	Non-segregated initial margin	-	-	
19	Prefunded default fund contributions	-	-	
20	Unfunded default fund contributions	-	-	

Notes:

¹QCCP: 'qualifying central counterparty' or 'QCCP' means a central counterparty that has been authorised or recognised in accordance with the relevant regulation. The Group uses LCH for this purpose.

13. Exposures to securitisation positions

This section sets out

- Information related to securitisation exposures
- Securitisation exposures in the non-trading book
- Exposures in default and specific credit risk adjustments

Securitisation positions, for capital purposes, are investments and other interests in securitisation transactions carried on an entity's balance sheet, which are subject to a specific capital regime. While the Group has been an active issuer of securitisation funding, these transactions have generally not resulted in the underlying assets being derecognised by the Group, which still includes their full exposure amount for capital purposes.

The single exception is Paragon Mortgages (No. 12) PLC, a legacy transaction, where the Group has no ongoing exposure.

13.1. UK-SECA - QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO SECURITISATION EXPOSURES

(a) Description of securitisation and re-securitisation activities (Article 449(a) CRR)

One of the Group's principal sources of funding has historically been asset securitisation. The largest part of this funding relates to securitisations issued under the 'Paragon Mortgages' programme but other issues have been made from time-to-time to support other parts of the business. In each of these transactions a group company acts as issuer of the securitised debt and group companies act as administrator of the assets after the completion of the deal.

The strategy underlying the Group's securitisation activities is to gain access to attractive funding rates for its lending activities and to mitigate liquidity risk by match funding the underlying loan assets. The structures are not intended to achieve significant transfer of credit risk away from the Group. The risk relating to the underlying assets therefore remains with the Group and is included in the credit risk analyses in Sections 9, 10 and 11 of this document.

In recent years the Group has retained a significant proportion of its securitisation note issuance, beyond the levels of retention required by regulation, and in 2020 all of the notes in the Paragon Mortgages (No. 27) PLC securitisation were retained. In November 2020 a further fully-retained transaction, Paragon Mortgages (No. 28) PLC was completed, and, in November 2023, the Paragon Mortgages (No. 29) PLC securitisation was launched, with the notes also being retained. All these notes have the benefit of the credit enhancement structure of the securitisation and are externally rated, with the AAA rated notes being particularly well-suited to being pledged as security to access other funding or liquidity sources.

During the year such notes have been used to support Bank of England TFSME drawings, sale and repurchase ('repo') and other funding transactions and represent access to a significant amount of contingent liquidity at the year end.

For accounting purposes the Group's securitisation transactions are treated as financing transactions and any externally issued notes are included in balance sheet liabilities. The underlying assets are not derecognised, and no profit or loss is recognised at the time of the transaction. Retained notes are eliminated on consolidation and no amounts are included in either assets or liabilities for accounting purposes.

For regulatory capital purposes the securitisation transactions do not meet the threshold for significant risk transfer and no securitisation exposures are included in RWEA, whether for simple transparent and standardised ('STS') securitisation transactions or for any other kind of securitisation.

There are no specific capital requirements for the Group's securitisation vehicle companies.

The Group has no exposures to purchased securitisation positions.

(b) The type of risk the Group is exposed to in securitisation and re-securitisation activities (Article 449(b) CRR)

(i) risk retained in own-originated transactions;

The Group has no additional risk from its securitisation transactions, over and above that inherent in the assets funded by the arrangement.

The Group does not undertake re-securitisation activities.

(ii) risk incurred in relation to transactions originated by third parties

The Group has no interests in securitisation transactions originated by third parties.

(c) Approaches to calculating the risk-weighted exposure amounts (Article 449(c) CRR)

Not applicable as the Group has no assets required to be risk weighted under the securitisation regime

(d) A list of Securitisation Special Purpose Entities ('SSPEs') related to the Group (Article 449(d) CRR):

(i) SSPEs which acquire exposures originated by the Group;

There are no SSPEs which have been set up to acquire securitisation exposures originated by the Group

(ii) SSPEs sponsored by the Group;

The Group does not act as sponsor, as defined in the CRR, in any securitisation transaction where it is not the originator.

(iii) SSPEs and other legal entities for which the Group provides securitisation-related services;

Apart from SSPE entities which are fully consolidated by the Group, it provides asset servicing and administration services for Paragon Mortgages (No. 12) PLC.

(iv) SSPEs included in the Group's regulatory scope of consolidation

The following SSPEs form part of the Group as at 30 September 2024 (and are listed in Section 4.4, template UK LI3) and are fully consolidated for the purpose of capital calculations:

- Paragon Mortgages (No. 27) PLC
- Paragon Mortgages (No. 28) PLC
- Paragon Mortgages (No. 29) PLC

During the year Paragon Mortgages (No. 26) PLC, which was included in this list at 30 September 2023 repaid all its funding.

(e) Legal entities that the Group has disclosed that it has provided support in accordance with Chapter 5 of Title II of Part Three CRR (Article 449(e) CRR)

There are no legal entities which the Group has disclosed that it has provided support to.

(f) A list of legal entities affiliated with the Group that invest in securitisations originated by the Group (Article 449(f) CRR)

There are no affiliated legal entities outside the Group which invest in securitisations originated by the Group.

(g) A summary of the Group's accounting policies for securitisation activity (Article 449(g) CRR)

Under IFRS 9, where an entity transfers a financial asset, it must evaluate the extent to which it retains the risks and rewards of ownership in order to determine whether it may be derecognised. In the case of its securitisation transactions, the Group retains substantially all of the risks and rewards of ownership of the financial assets and therefore the assets are not derecognised.

Securitisation liabilities are only recognised to the extent that they are acquired by a third party.

(h) The names of the ECAs used for securitisations and the types of exposure for which each agency is used (Article 499(h) CRR)

Not applicable as the Group has no securitisation exposures falling to be risk weighted under the securitisation regime.

(i) **A description of any Internal Assessment Approach used (Article 449(i) CRR)**

Not applicable because the Group has not adopted the Internal Assessment Approach and there are no applicable securitisation exposures.

13.2. UK-SEC1 - SECURITISATION EXPOSURES IN THE NON-TRADING BOOK

The Group does not have securitisation exposures in the non-trading book and therefore template UK SEC1 has not been presented.

13.3. UK-SEC2 - SECURITISATION EXPOSURES IN THE TRADING BOOK

The Group does not have a trading book and therefore template UK SEC2 has not been presented.

13.4. UK-SEC3 - SECURITISATION EXPOSURES IN THE NON-TRADING BOOK AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS - INSTITUTION ACTING AS ORIGINATOR OR AS SPONSOR

The Group has no such exposure therefore this template has not been presented.

13.5. UK-SEC4 - SECURITISATION EXPOSURES IN THE NON-TRADING BOOK AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS - INSTITUTION ACTING AS INVESTOR

The Group does not have any securitisation exposures in which the Group acts as an investor.

13.6. UK-SEC5 - EXPOSURES SECURITISED BY THE INSTITUTION - EXPOSURES IN DEFAULT AND SPECIFIC CREDIT RISK ADJUSTMENTS

This table includes assets of the Paragon Mortgages (No. 12) PLC transaction. This is the only transaction where the Group has acted as originator, but has derecognised the assets.

		a	b	c
		Exposures securitised by the institution – institution acts as originator or as sponsor		
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
			Of which exposures in default	
		£m	£m	£m
1	Total exposures	291.4	14.2	1.4
2	Retail (total)	291.4	14.2	1.4
3	residential mortgage	291.4	14.2	1.4
4	credit card	-	-	-
5	other retail exposures	-	-	-
6	re-securitisation	-	-	-
7	Wholesale (total)	-	-	-
8	loans to corporates	-	-	-
9	commercial mortgage	-	-	-
10	lease and receivables	-	-	-
11	other wholesale	-	-	-
12	re-securitisation	-	-	-

14. Standardised approach and internal model approach for market risk

This section sets out

- Strategies and processes to manage 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.

In some cases, generally where a bank undertakes trading in financial instruments, the PRA Rulebook requires the calculation of RWEAs in respect of market risk (such as interest rate risk or foreign exchange risk). The Group is exposed to market risk, but as this is only ancillary to its lending and deposit taking activities, it is not required to calculate an amount for market risk in its capital assessment.

Additional disclosures in respect of interest risk in the banking book ('IRRBB'), which forms the principal part of the Group's market risk exposure, are set out in Section 15.

14.1. UK MRA: QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO MARKET RISK

(a) Strategies and processes to monitor, manage, control and hedge market risk (points (a) and (d) of Article 435 (1) CRR)

The Group's market risk principally arises from IRRBB, as it does not have a trading book. Most of the exposure to market risk arises from fixed-rate mortgage and savings products. To reduce the impact of such movements, interest rate hedging activities are undertaken by the Group's Treasury function.

The Group does not seek to generate income from taking market risk, and therefore seeks to minimise its exposures by matching the repricing basis and repricing tenor of assets and liabilities or by hedging with derivatives. The capital required to cover any residual exposure is examined annually as part of the ICAAP.

The Board is responsible for setting market risk appetite and ALCO is responsible for managing the Group's market risk profile within this defined risk appetite. Market risk is managed within board-approved risk appetite limits with comprehensive treasury policies in place. The Group's Principal Risk Policy for Market Risk is reviewed and approved annually by the RCC with review provided by ALCO.

The Group has tight limits in place to mitigate and allow effective monitoring of market risk. The key measures utilised by the Group include economic value ('EV') and earnings-based measures. These metrics are monitored and reported weekly.

Further disclosure on strategies and processes to manage IRRBB, which comprises almost all of the Group's market risk exposure is provided in Section 15.

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. As a result of these arrangements, the Group has no material exposure to foreign currency risk.

(b) Structure and organisation of the market risk management function (point (b) of Article 435 (1) CRR)

The Board is responsible for setting the Group's market risk strategy which is outlined in the Market Risk - Principal Risk Policy. ALCO, to which the Board has delegated the day-to-day supervision of market risk, performs its duties in accordance with board risk appetite, its Terms of Reference and regulatory requirements.

Market risk is managed on a first line basis within the Treasury function. As the principal focus of market risk activity within the function relates to IRRBB, a fuller description is given in Section 15.

(c) Scope and nature of market risk reporting and measurement systems (point (c) of Article 435 (1) CRR)

The principal market risks that affect the Group comprise mostly IRRBB, with a small exposure to foreign exchange risk. The main components of IRRBB are listed below, together with the types of risk reporting measures used to manage them:

Interest Rate Risk Exposure	Definition	Reporting Measure
Duration 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	EV sensitivity / Net interest income sensitivity / PV01 gaps
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 or SONIA. Relative changes in the difference between the reference rates over time may impact earnings	Net interest income sensitivity
Optionality 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	EV sensitivity / Net interest income sensitivity

The process by which these IRRBB metrics are measured and monitored is described in more detail in Section 15.

The Group has a capital requirement for interest rate risk, forming part of its Pillar 2a capital, set at a Bank level and separately at a group level. Neither the Group nor the Bank is required to include an amount for market risk in RWEA.

14.2. UK MR1 - MARKET RISK UNDER THE STANDARDISED APPROACH

The Group is not required to calculate an exposure amount for market risk and therefore template UK MR1 has not been presented.

14.3. UK MRB: QUALITATIVE DISCLOSURE REQUIREMENTS FOR INSTITUTIONS USING THE INTERNAL MARKET RISK MODELS

The Group does not use an Internal Market Risk Model for market risk and therefore template UK MRB has not been presented.

14.4. UK MR2-A - MARKET RISK UNDER THE INTERNAL MODEL APPROACH ('IMA')

The Group does not use an IMA for market risk and therefore template UK MR2-A has not been presented.

14.5. UK MR2-B - RWA FLOW STATEMENTS OF MARKET RISK EXPOSURES UNDER THE IMA

The Group does not use an IMA for market risk and therefore this template has not been presented.

14.6. UK MR3 - IMA VALUES FOR TRADING PORTFOLIOS

The Group does not have any trading portfolios and therefore this template has not been presented.

14.7. UK MR4 - COMPARISON OF VAR ESTIMATES WITH GAINS / LOSSES

The Group does not use an IMA for market risk and therefore this template has not been presented.

15. Exposures to interest rate risk on positions not held in the trading book

This section sets out

- Risk management objectives and policies
- Quantitative information on IRRBB

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.

This section describes the Group's IRRBB position, which arises from the interaction between fixed and floating interest rates on the Group's lending portfolios, customer deposits and borrowings, together with derivative positions established to hedge against those risks. 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.

Derivative assets and liabilities continue to be used to hedge interest rate risk arising from fixed rate loans and deposits. The Group pre-hedges a proportion of its lending pipeline, which can result in derivative positions being established before loans are completed. The size of these derivative 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 the Group's lending and deposit-taking activities and we undertake no trading in derivatives.

The Group also hedges its tier-2 fixed interest rate borrowings, and has hedged the interest rate risk on the investments in gilts acquired as part of the liquidity buffer in the year. During the year the Group has continued to develop its 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 ('NFRH'). At 30 September 2024, £1,200.0 million had been attributed in this way (2023: £313.0 million). The year-end hedge represents the current target hedging level, covering the majority of the equity balance. However, this form of hedging has no direct accounting impact.

15.1. UK IRRBBA - IRRBB RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) A description of how the Group defines, measures, mitigates and controls IRRBB for the purposes of risk control and measurement

The Group's interest rate risk arises in the banking book; it does not have a trading book. Interest rate risk, which is defined as the risk of changes in the net value of, or net income arising from, the Group's assets and liabilities from adverse movements in market prices, is a key component of the Group's market risk framework.

The Board is responsible for setting market risk appetite and ALCO is responsible for managing the Group's market risk profile, including interest rate risk, within this defined risk appetite.

Market 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 is the responsibility of Treasury, with control and oversight provided by ALCO.

Consistent with other risk categories, IRRBB is subject to the Group's 'three lines of defence model' with oversight undertaken by the Second Line (Prudential Risk) and assurance provided by the Third Line (Internal Audit).

The key elements of IRRBB to which the Group is exposed are:

- 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 the interest rates on assets and liabilities are linked to different reference interest rates, for instance rates set by the Group and market rates, such as the Bank of England base rate and SONIA. 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 re-pricing 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.

To mitigate this risk, 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.

The principal metrics by which the Group monitors interest rate risk are discussed in Section 14.1.

(b) A description of the Group's overall IRRBB management and mitigation strategies

IRRBB specifically is managed and mitigated through a combination of:

- monitoring and reporting risk exposures
- matching or offsetting exposures
- use of derivatives for hedging
- the design of appropriate product features, such as early repayment charges
- the use of the NFRH, described above

(c) The periodicity of the calculation of the Group's IRRBB measures, and a description of the specific risk measures that the institution uses to gauge its sensitivity to IRRBB, including changes to its economic value and earnings

Economic Value ('EV') and Net Interest Income ('NII') sensitivities to various changes in the yield curve are used to measure IRRBB. EV and NII sensitivities are measured on a weekly basis but are often assessed more frequently in the event of changes to the run rate of loan originations and deposit flows, or where external market conditions change. EV sensitivity takes into consideration embedded customer optionality. Internal risk limits are set for these metrics.

Metrics showing the change in economic value and the change in net interest income are complemented by more granular metrics, such as PV01 risk limits for various tenors, which are monitored intra-week.

(d) A description of the interest rate shock and stress scenarios that the Group uses to estimate changes in its economic value and in earnings

For internal monitoring purposes, the impacts to the Group's EV and NII under a set of severe but plausible interest rate shocks are evaluated. The types of yield curve shift modelled consider the main repricing gaps evident in the Group's balance sheet in order to understand the type of stressed interest rate shift that would be most impactful for the Group. These include:

- +150 basis points parallel shock up
- -150 basis points parallel shock down
- Short rates shock up followed by long rates shock down ('SULD')
- Short rates shock down followed by long rates shock up ('LUSD')

In addition, the Group calculates EVE and NII sensitivities in accordance with six prescribed interest rate shocks in the PRA's Supervisory Outlier Test ('SOT'), set out in Section 9.7 of the Internal Capital Adequacy Assessment Part of the PRA Rulebook. The impacts of these scenarios at 30 September 2024 are shown in template UK IRRBB1 in Section 15.2.

- Parallel shock up (250 basis points)
- Parallel shock down (250 basis points)
- Steepener shock
- Flatteners shock
- Short rates shock up (300 basis points)
- Short rates shock down (300 basis points)

(e) A high-level description of key modelling and parametric assumptions used in calculating change in economic value of equity (' Δ EVE') and change in net interest income (' Δ NII') in template UK IRRBB1

EVE sensitivity

The key assumptions used in calculating the EVE sensitivity shown in template UK IRRBB1 are as follows:

- The yield curve at the report date is instantaneously shocked in line with the six prescribed scenarios, which are the same as those specified for the SOT. The sensitivity shown against each scenario represents the difference between the present value of assets and liabilities in a baseline scenario and the shock scenario
- The balance sheet at the report date is run off over its expected residual duration
- The Group's own equity is excluded
- Commercial margins are included with cash flows but excluded from discount rates
- Contractual repricing maturities are used except for motor finance loans which are adjusted to reflect prepayment behaviour
- Non-maturing deposits ('NMDs') are assumed to reprice overnight

NII sensitivity

The key assumptions used in calculating the NII sensitivity shown in template UK IRRBB1 are as follows:

- Static balance sheet over a one-year horizon, with all assets and liabilities maturing within the year reinvesting in like-for-like products
- The prevailing interest rates at the report date are held constant over the one-year horizon to which instantaneous + / - 250 basis points parallel interest rate shocks are applied.
- It is assumed that changes in interest rates are fully passed through to retail products, which includes managed variable rate products
- The sensitivities do not include any management actions which could be taken in response to a change in interest rates
- The values are reported on a pre-tax basis

The results of these tests, as at 30 September 2024 and 30 September 2023, are set out in Section 15.2.

(f) A description of significant modelling assumptions used in the Group's internal measurement systems ('IMS') for purposes other than disclosure that differ from the modelling assumptions prescribed for the disclosure in template UK IRRBB1, including their directional implications and the rationale for those differences

For internal reporting, EV and NII sensitivities are calculated according to stressed yield curve shifts that would be most impactful for the Group (as outlined in (d) above), rather than the prescribed scenarios. These stresses are based on the evaluation of the Group's risks, and on its approved risk appetites. In addition, a rate floor of -10 basis points is assumed for both EV and NII sensitivity calculations to allow for non-linear behaviours around the 0% interest level.

(g) A high-level description of how the Group hedges its IRRBB, as well as the associated accounting treatment

The Group seeks to minimise its exposures to interest rate risk by matching the repricing basis and repricing tenor of assets and liabilities. Where the tenor of fixed rate deposits does not broadly match the maturity profile of fixed rate loans, the deposits and loans will generally be hedged with interest rate swaps through which exposure to fixed rates will be converted to SONIA. The Group has also taken out swaps to effectively convert its fixed-rate Tier-2 bond borrowings and its investments in fixed rate gilts to a SONIA-linked floating basis.

The Group uses the portfolio ('macro') fair value hedging approach set out in IAS 39 to account for interest rate hedging activities related to lending and deposit taking, while the swaps relating to the Tier-2 bond and investments in gilts are accounted for as one-to-one ('micro') hedges of interest rate risk.

Additionally the Group considers the impact of its effectively fixed rate equity base and maintains an NFRH, matching the equity balance with fixed rate assets.

(h) Any other information which the Group wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures

EVE sensitivity

EVE sensitivity measures the change in the economic value of the Group's assets and liabilities, excluding equity, arising from a change in interest rates.

Of the IRRBB measures disclosed in template IRRBB1 (Section 15.2), the Group's most severe EVE sensitivity is the 250 bps upward parallel yield curve shock which would result in a decline in EVE of £130.3 million. This represents an SOT result of -11.1% (Δ EVE as a percentage of Tier 1 capital) which is within the regulatory 15% threshold.

The increase from 30 September 2023, when the maximum outlier was -4.2% of Tier-1, is due to the implementation of the NFRH, described above, which resulted in some £1,200m of fixed rate mortgage exposure not being hedged with derivatives. The NFRH was implemented to reduce the Group's exposure to reductions in market interest rates, but this increases the EVE sensitivity to rising rate scenarios.

NII sensitivity

NII sensitivity measures the change in NII arising from a change in interest rates.

NII sensitivities will vary over time due to several factors, such as the timing of maturing assets and liabilities, product pricing, market conditions, and strategic changes to the balance mix. As such, they should not be considered as a guide to future performance.

The Group's most severe NII sensitivity of those disclosed in IRRBB1 is the 250 bps upward parallel yield curve shock, which would result in a reduction in NII of £10.2 million. This is calculated over a one year time horizon and considers mismatches between the repricing of assets and liabilities.

At 30 September 2023 the Group's most severe NII sensitivity was to a 250 bps downward parallel yield curve shock (which would have resulted in a reduction in NII of £18.2 million. The change in the Group's exposure to rate shifts is the result of the implementation of the NFRH.

(i) Average repricing maturity assigned to non-maturing deposits ('NMD's)

The average repricing maturity assigned to NMDs is 1 day. This is calculated using balances which are assumed to reprice overnight (including easy access deposits).

(j) Longest repricing maturity assigned to NMDs

The longest repricing maturity assigned is 1 day.

15.2. UK IRRBB1 - QUANTITATIVE INFORMATION ON IRRBB (2024)

The outputs of the stress tests described in part (e) of template UK IRRBBA above are presented in the table below. Commentary on the results is provided in part (h) of template UK IRRBBA.

		a	b	c	d	e	f
	£m	ΔEVE		ΔNII		Tier 1 capital	
	Period	30 Sep 24	30 Sep 23	30 Sep 24	30 Sep 23	30 Sep 24	30 Sep 23
010	Parallel shock up	(130.3)	(49.5)	(10.2)	18.2		
020	Parallel shock down	14.7	55.4	10.2	(18.2)		
030	Steepener shock	(4.1)	4.1				
040	Flattener shock	(20.2)	(13.1)				
050	Short rates shock up	(62.5)	(28.6)				
060	Short rates shock down	65.5	29.8				
070	Maximum	(130.3)	(49.5)	(10.2)	(18.2)		
080	Tier 1 capital					1,177.9	1,188.9

16. Operational risk

This section sets out

- Risk management
- Operational risk own funds requirements and risk-weighted exposures

Banks are required to carry capital against the risk of losses being incurred through operational risk incidents, which might deplete the strength of the organisation's balance sheet. This section discusses the Group's exposure to, and approach to managing, operational risk, and how the capital requirement is calculated.

16.1. UK ORA - QUALITATIVE INFORMATION ON OPERATIONAL RISK

(a) Risk management objectives and policies (points (a), (b), (c) and (d) of Article 435(1) CRR)

Strategies and Processes

Operational risk is defined by the Group as the risk of financial and non-financial detriment resulting from inadequate or failed internal procedures, people and systems or from external events. Operational risk within the Group is further broken down into a number of sub-categories which facilitates accountability, day-to-day management and appropriate analysis and reporting. These include Business Continuity, People, Third Party, Information Technology, Information Security, Financial Crime, Data Security and Data Management.

Understanding the Group's operational risks enables the business to make informed decisions, and ultimately creates added value for stakeholders. The overarching strategy in respect of operational risk is to:

- Embed sound management practices for operational risk within the overall risk culture of the Group
- Ensure that the Group has robust processes in place to identify, assess, treat, monitor and report on its significant operational risks
- Ensure that an appropriate and proportionate system of internal control is in place to manage operational risks
- Provide independent oversight and challenge to the business units in the first line of defence to ensure all key risks are identified, assessed, managed, monitored, and reported on in a timely manner
- Work with business units to ensure minimal losses are suffered
- Collaborate and align with other principal risks where necessary, as well as other risk disciplines such as operational resilience, to drive a consistent approach to managing risk

Operational risk is governed by the Operational Risk Management Framework ('ORMF') which is designed to support the achievement of the Group's strategic objectives within the Board's risk appetite whilst complying with regulatory requirements. The ORMF comprises of several interlinked components which support the Group's effective identification, assessment, management, monitoring and reporting of its operational risks. These components have key roles to play within the risk management lifecycle, all working together to improve upon the risk and control landscape. These components include Risk and Control Self-Assessment ('RCSA'), Internal Controls, Key Indicators, Risk Events, Action Plans and Scenario Analysis.

Structure and organisation of risk management function for operational risk

The 'Three Lines of Defence' model has been adopted as the overarching approach to risk management within the Group. This is a governance model which ensures appropriate responsibility is allocated for the management, reporting and escalation of risk. Allocation of clear responsibilities for risk management ensures risks are identified, monitored, managed and mitigated where required in order that they remain within the Board's risk appetite.

The Second Line of Defence has a dedicated Operational Risk team which is specifically responsible for:

- Ownership and management of the ORMF and the policies and policy standards that fit within this framework
- Oversight and challenge of the adequacy and effectiveness of the risk and control processes operating within the business
- Oversight and challenge of business adherence to the ORMF
- Undertaking targeted operational risk and control reviews where appropriate

The Operational Risk Committee ('ORC') is the primary oversight committee for operational risk. This committee feeds into the ERC which supports the RCC and ultimately the Board in executing its risk responsibilities.

Risk measurements and control

Identification and assessment of risks is undertaken across the organisation and relies on input from all levels of management. Across the Group risks are considered from both a "top down" approach, which includes scenario analysis, and a "bottom up" perspective through RCSA to ensure full coverage of the risks the Group faces. These approaches enable appropriate analysis, review and challenge.

The components of the ORMF all play a role in supporting the Group's effective identification, assessment and management of its operational risks, and all support risk and capital management and assessment. These components work together to form a toolkit for the management of operational risk.

Given the disparate nature of risks that are classified within the operational risk category in the Group's taxonomy, considerable effort has been, and continues to be, made to ensure that operational risks are consistently understood and defined across the Group. A programme of continuous improvement is in place to embed understanding and ensure that all material operational risks are fully articulated within the policy framework and have appropriate appetites and measures in place to ensure ongoing tracking. Dedicated policies are in place for each subcategory of operational risk, and these are subject to ongoing review and refinement.

The policies all articulate minimum controls required to manage the risk type and include risk and control indicators that allow management to monitor the risk and control environment on an ongoing basis. These continue to be refined to ensure they remain relevant and are calibrated appropriately to provide timely and meaningful reporting to the ORC as appropriate. The ongoing embedding of the policy framework through the risk and control assessment process remains a priority under the ERMF.

The Group continues to maintain a strong control environment and is mindful that the external operating environment over the last year has posed several challenges which have increased the level of inherent operational risk and reinforced the need for robust controls. Whilst this has not led to a significant increase in operational losses, the operational risk framework enables the Group to monitor and respond to any changes quickly and effectively.

The ongoing pressures on the cost of living and doing business in the UK from the inflationary environment of recent periods continue to dominate the risk landscape. The impacts of this on both customers and employees have remained a key driver in the Group's operational and conduct risk profiles. The Group remains committed to achieving the right outcomes for its customers and ensuring customers in vulnerable circumstances receive appropriate and tailored support.

The effects of conflicts in Eastern Europe, the Middle East and elsewhere in the world continue to be felt in exacerbating the other economic pressures but also impact the levels of cyber risk and financial crime risk. The Group remains committed to investment in both these areas given the evolving and increasingly complex nature of such threats.

Ongoing assessment and response to the Group's cyber profile remains integral to the successful execution of its strategy with, in particular, continuing investment in its digital services. As the Group continues to make strong progress on its strategic transformation programme, it is anticipated that this 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 risk reporting

The structure, content, and presentation of Management Information ('MI'), including the supporting reporting processes required, is a key component of the ERMF and informs decision making at all levels across the organisation.

Detailed operational risk MI is presented at the ORC. This includes information supplied from various areas of the Group, including:

- Risk appetite metrics reflecting how the various categories of operational risk are tracking against board and executive-level risk appetites
- Key indicator breaches and associated action plans to address any risk exposure
- New and emerging external trends in order to identify any potential read-across for the Group
- Any major risk events that have occurred since the previous reporting period and updates on previous periods, to ensure appropriate remedial actions are being implemented
- An overview of risk events and losses position, highlighting the movement of losses and actual losses suffered in the current month, and risk event volumes and emerging or ongoing trends
- Individual updates from across the business, to cover all operational risk categories included in the risk taxonomy
- Any risk acceptances being proposed, or policy waivers required

The Group maintains a central risk system which contains the source operational risk data. All data is mapped against the operational risk categories and risk events are mapped against causal categories, as well as being reported against the operational risk categories defined by the BCBS in the Basel III framework – which allows comparison with peer organisations.

As the framework matures, an ongoing review is being undertaken to ensure that reporting consistently aligns to the Group's risk universe, facilitating enhanced analysis.

Policies for hedging and mitigating operational risk

Ensuring the adoption of a consistent approach to the creation, ongoing management and closure of action plans forms part of a strong ORMF, one that ensures risks and controls are being managed within risk appetite and are aligned with the Group's strategic objectives. Business areas are required to capture and address actions in a timely manner. Actions articulate the appropriate risk treatment as defined under the Group's ERMF which include the following:

- Mitigate – enhance controls to bring the risk down to an acceptable level which can be tracked through the ORC
- Accept – accept that, due to time or resource constraints, a risk cannot be brought down to within appetite. This is supported by a formal Risk Acceptance process with individual acceptances reviewed on a regular basis to ensure ongoing appropriateness
- Transfer – put in place measures to transfer the impact of the risk to a third party, for instance, by taking out insurance under the Group's corporate insurance framework which ensures that appropriate insurance policies are in place against key operational risk exposures, such as cyber and fraud risks
- Avoid – cease the activity that gives rise to the risk, for example, by withdrawing a product or removing a distribution channel

Minimum controls in managing individual operational risks are documented within the respective policy to ensure operational risks are managed and mitigated consistently across all areas of the Group.

(b) Approaches for the assessment of minimum own funds requirements (Article 446 CRR)

The Basic Indicator Approach ('BIA') is used to calculate RWAE for operational risk and hence Pillar 1 operational risk minimum funds requirements for the Group as a whole.

(c) Description of the AMA methodology approach used (Article 446 CRR)

This is not applicable to the Group as no Advanced Measurement Approach ('AMA') is used.

(d) Use of insurance for risk mitigation in the Advanced Measurement Approach (Article 454 CRR)

This is not applicable to the Group as an AMA is not used.

16.2. UK OR1 - OPERATIONAL RISK OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

For organisations of the Group's size the BIA own funds requirement is calculated as 15% of the average relevant income for the past three financial years. RWAE is derived from the own funds requirement.

		a	b	c	d	e
	Banking activities	Relevant indicator			Own funds requirements	Risk weighted Exposure Amount
	£m	Year-3	Year-2	Last Year		
1	Banking activities subject to basic indicator approach ('BIA')	390.3	468.1	498.4	67.8	848.0
2	Banking activities subject to standardised ('TSA') / alternative standardised ('ASA') approaches	-	-	-	-	-
3	<u>Subject to TSA:</u>					
4	<u>Subject to ASA:</u>					
5	Banking activities subject to advanced measurement approaches ('AMA')	-	-	-	-	-
						See table UK OV1

17. Remuneration policy

This section sets out

- Remuneration policy
- Remuneration awarded for the financial year

The section sets out matters relating to the Group's remuneration policies, particularly those relating to Material Risk Takers ('MRTs') including senior management. MRTs are those employees who fall within the scope of the Remuneration part of the PRA Rulebook and SYSC 19D of the FCA Handbook. This disclosure is required to be made for Paragon Bank PLC, but all of the people involved also exercise their roles at a group level.

17.1. UK REMA - REMUNERATION POLICY

(a) Information relating to the bodies that oversee remuneration

i. Name, composition and mandate of the main body overseeing remuneration

The Company and the Bank's Remuneration Committee ('RemCo') is responsible for determining and agreeing the remuneration strategy, how the strategy is reflected in the remuneration policy and the specific remuneration packages for the Group's Chair, the executive directors and other members of the Executive Committee and the Company Secretary. Additionally, it is also responsible for the remuneration of all other MRTs.

RemCo also oversees how the remuneration policy is applied across the wider employee base, with a specific focus on the risks posed by remuneration policies and practices.

Four scheduled and one ad hoc RemCo meetings were held during the financial year ended 30 September 2024.

The terms of reference for the RemCo have been approved by the Company and Bank's Board of Directors (and are available on the Group's corporate website www.paragonbankinggroup.co.uk).

Remuneration Committee composition

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.

ii. External consultants whose advice has been sought, the body by which they were commissioned, and in which areas of the remuneration framework

PricewaterhouseCoopers LLP ('PwC') are the Committee's independent external remuneration consultants. Their advice was sought across the whole spectrum of the Committee's mandate including executive directors' remuneration, remuneration for the Chair of the Board and the wider MRT population as well as the regulatory landscape more generally.

PwC were appointed by the Committee following a tender process in the financial year ended 30 September 2021. They 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.

iii. The scope of the institution's remuneration policy

The Group's remuneration policy comprises:

- The Directors' Remuneration Policy, which applies to the executive directors of the Company and the Bank only
- The Internal Remuneration Policy (for all employees and which is reflective of the Directors' Remuneration Policy). The Internal Remuneration Policy provides no greater level of benefit nor any lower level of risk tolerance than the Directors' Remuneration Policy
- Various related sub-policies on specific matters such as Malus and Clawback

Both the Directors' Remuneration Policy and the Internal Remuneration Policy are reviewed by RemCo on at least an annual basis.

Additionally, an annual review of the implementation of remuneration policies is undertaken by the Group's Internal Audit function. This review assesses the compliance level of the Group's remuneration policy against the remuneration regulations of the PRA and FCA. The outcome of the review is considered by RemCo, which ensures that any steps necessary to maintain compliance are taken.

The Group does not have any subsidiaries or branches outside of the UK.

iv. Staff or categories of staff whose professional activities have a material impact on institutions' risk profile

MRTs identified for the financial year ended 30 September 2024 are those individuals whose professional activities have a material impact on the Group's risk profile, based on, but not limited to, the qualitative and quantitative criteria as required by relevant regulations. MRTs are identified by reviewing individual responsibilities within a role and assessing the materiality of the impact the role could have on the risk profile of the Group.

During the 2024 financial year there were 57 MRTs. Those identified as MRTs include, but are not limited to:

- Executive and non-executive directors of the Group
- Senior management, which includes other members of the Group's Executive Committee who are not directors of the Group and other staff with key functional or managerial responsibility. This includes senior managers of control functions such as Internal Audit and Risk
- Other risk takers, including those identified against the Group's internally developed criteria, whose professional activities could have a material impact on the Group's risk profile

(b) Information relating to the design and structure of the remuneration system for identified staff

i. An overview of the key features and objectives of remuneration policy and the decision making process

Objectives

The key objectives of the remuneration policies are to reward all of the Group's employees fairly for their contribution, whilst ensuring they are motivated to always deliver the best outcomes for customers. This approach to remuneration reflects the Group's purpose, culture and values whilst being aligned to its long-term strategy and helping to deliver good customer outcomes.

Structure

The main elements for employees (including MRTs) are:

- Fixed pay, comprising:
 - Base salary
 - Benefits (including pension, car benefits and healthcare)
- Variable pay

Fixed pay

All employees receive salary, or in the case of non-executive directors, fees. Salary levels are reviewed annually in line with performance, skills and experience and considering market data. Pension and other benefits are provided as part of a competitive reward package. Fixed pay may also include cash in lieu of pension and other cash allowances, such as car allowance, in accordance with market practice.

A proportion of salary for a small number of MRTs, including the executive directors, is delivered in shares, released over five years. Salary in shares is not pensionable. It forms part of total salary for the purposes of determining bonus and long-term incentive award levels.

Non-executive directors do not benefit from any performance awards or from any pension arrangements. Non-executive directors are paid a basic fee, with an additional supplement paid for additional roles or responsibilities, including acting as Senior Independent Director, or for serving on, or chairing, a board committee.

Fees are set considering practice at other organisations as well as the time commitment required for the specific role. The Chair of the Board's fee is normally reviewed and approved by the Committee on an annual basis. The fees paid to non-executive directors are normally reviewed and approved by the Board (excluding the non-executive directors) annually. Non-executive directors receive reimbursement for any reasonable expenses.

Variable pay

Variable pay for MRTs comprises principally annual bonus awards and/or share based awards under the Paragon Performance Share Plan ('PSP') and the Deferred Share Bonus Plan. The deferral of variable pay applies as required by the Remuneration Part of the Rulebook. For the majority of MRTs the principal means of meeting the deferral requirements is through PSP awards, which are not accessible for at least three years in normal circumstances.

Variable pay for the year ended 30 September 2024 was delivered in accordance with the Group's Directors' Remuneration Policy and its Internal Remuneration Policy. Consideration is given to individual performance against objectives which are agreed through annual financial and non-financial targets. Bonus awards are based on a combination of group performance, business lines' performance and personal performance, including adherence to the Group's ERMF. The Committee will only approve performance related pay if it is sure the Group is financially secure. During 2024, all variable pay operated within the policy framework.

RemCo is responsible for determining and agreeing the remuneration strategy and the remuneration policy for all MRTs. This includes approving the design of, and determining the performance targets for, any discretionary performance bonus operated by the Group for the benefit of these employees. RemCo also approves the outcomes of any performance award and reviews the year-end pay outcomes for all these employees. RemCo is supported by the Chair of the RCC, and the CRO, on risk-related matters including pay plan design, the assessment of specific performance measures, and wider issues relating to risk and controls. RemCo is also supported by and receives input from its independent external consultants, PwC.

Stakeholders

The Chair of RemCo and the Chair of the Board met with a number of shareholders and proxy agencies during the year as part of RemCo's regular and ongoing engagement with stakeholders. Discussions with shareholders on the AGM voting also took place during the year and have been considered as part of RemCo's deliberations.

The Directors' Remuneration Policy is usually put to the AGM on a triennial basis and will next be put in 2026. The Directors' Remuneration Report is put to the AGM on an annual basis as required by the Companies Act 2006.

The People Forum, the Group's workforce engagement forum, provides an arena for discussion and feedback on executive and all-employee remuneration structures including the Directors' Remuneration Policy and the Internal Remuneration Policy. Meetings between the Forum and the Chair of RemCo to engage on executive remuneration, explain its operation and to discuss remuneration across the wider workforce, form a regular part of the Forum's annual calendar and took place in November 2024.

ii. Information on the criteria used for performance measurement and ex ante and ex post risk adjustment

The Group uses variable pay to align reward with performance. Measurement is designed to encourage high performance whilst supporting effective risk management. Individuals are only rewarded for the achievement of challenging objectives in line with the corporate plan and the extent to which their individual performance and behaviours are in line with the Group's culture and values. Objectives are reviewed on an annual basis. Awards reflect the measures that apply to all employees: displaying the competency behaviours set out in the person's job description, demonstrating the values of the Group, and acting in accordance with relevant risk management and risk appetite requirements.

The Group's approach to risk adjustment provides for a discretionary assessment of both 'ex ante' and 'ex post' risk adjustments, based on performance against risk appetite as set out in the ERMF and taking into account any risk events during the year from a conduct, reputational, financial or operational perspective.

Ex-ante risk adjustments are made in two ways. The first of these involves an assessment of the Group's performance against its established risk appetites during the period. This is relevant as forming the basis for the in-year assessment of the risk performance element of the Executive Director and Senior Manager annual bonus scheme and forming half of the risk element of the long-term incentive award assessment. The second method involves a strategic assessment of the Group's risk performance. This is relevant as forming the basis for the assessment of the other half of the risk element of the long-term incentive award. The long-term incentive award assessments are measured over three years.

All variable remuneration for MRTs is subject to risk adjustment. When reaching its determination of an appropriate level of risk adjustment, RemCo considers a range of factors, with input from the CRO and Chair of the RCC, as well as the output from the Risk Adjustment Review Group, a working group of RemCo consisting of the CRO, CPO and the Director of Conduct and Compliance.

Ex-post risk adjustment applies to annual bonus awards for MRTs and long-term incentive awards for all employees which are subject to malus and clawback provisions relating to circumstances including the following:

- A higher payment than would otherwise have been the case being paid as a result of a material misstatement of a group company's results
- Any error or inaccurate, misleading information or assumptions relating to a financial year
- Being party to behaviour that resulted in serious reputational damage to a group company or a relevant business unit
- Reasonable evidence of employee misbehaviour or material error
- Material failure of risk management within a group company or relevant business unit, taking account of the individual's proximity to and / or responsibility for the event

- Material downturn in the financial performance of a group company or relevant business unit
- Failure to meet appropriate standards of fitness and propriety
- Participation in or responsibility for conduct which resulted in significant losses to the Group
- Situations where there is a significant increase in the Group's or business unit's economic or regulatory capital base
- Regulatory sanctions where the conduct of the participant contributed to the sanction

Any variable awards may be reduced or cancelled before vesting or clawed back for a period of up to seven years from the grant date. For certain senior MRTs this may be extended to ten years in the event of ongoing internal / regulatory investigation at the end of the seven-year period.

iii. Whether the management body or the remuneration committee where established reviewed the Group's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration

The RemCo reviewed the Group's Internal Remuneration Policy (applicable to all employees) during the year ended 30 September 2024 and made minor changes of a non-substantive nature including confirmation that deferral is only applicable to MRTs, and that variable pay for control functions is solely related to function/personal performance. These changes do not impact on remuneration levels or risk appetite levels.

The Directors' Remuneration Policy, which is only applicable to the two executive directors of the Company and the Bank, was reviewed in the year ended 30 September 2022 ahead of the triennial policy vote put to the Company's AGM in March 2023. Details of the Directors' Remuneration Policy can be found in Section B7.3 of the Company's Annual Report and Accounts for the year ended 30 September 2022. As part of its year-end review processes for the year ended 30 September 2024 the Committee considered the extant policy and determined that no changes were required to it at this point in time.

iv. Information of how the institution ensures that staff in internal control functions are remunerated independently of the businesses they oversee

For control functions, as for all central functions and business units, remuneration is determined by the CEO, CFO and CPO in order to avoid conflicts of interest. When an employee is an MRT, the remuneration proposal will be independently reviewed and approved by RemCo. Remuneration is determined to ensure it adequately attracts qualified and experienced employees. The level of any bonus awards and / or pay increases considers individual talent ratings. Individual ratings relate to achievement of objectives tailored to control function roles, with no link to group performance.

For senior officers within control functions (who are MRTs) annual bonus awards are determined based on individual (including functional) performance only. RemCo is responsible for setting and overseeing the remuneration for senior officers in control functions with specific input from the Chair of the RCC and the Chair of the Audit Committee.

v. Policies and criteria applied for the award of guaranteed variable remuneration and severance payments

The Group will consider a guaranteed variable payment only where it is exceptional, and it occurs in the context of hiring new MRTs or specific specialist roles critical to the delivery of the Group's strategy. Guaranteed variable remuneration will be rare, limited to an employee's first year of service, and will only be agreed if the Group has a sound and strong capital base. In addition, the Group may buy out contractual terms forfeited, for example previous relocation arrangements. Where it is deemed appropriate to grant a guaranteed variable payment, this will be subject to the Committee's approval and in line with regulatory requirements.

The Group's approach to retention awards is in line with the principles set out in the remuneration regulations. Retention awards are granted only in exceptional circumstances, such as a major corporate restructuring, where a strong case can be made for retention of particular key staff members on prudential grounds. The Committee will approve any proposed retention awards for MRTs. Regulatory approval will also be required where a retention award is made to an MRT.

Any termination payments made to employees will reflect the terms of the contracts of employment or service contracts in place as well as the relevant incentive plan rules. There is no automatic or contractual right to incentive payments upon termination of employment.

In exceptional circumstances, the Group reserves the right to consider the payment of additional termination payments provided such payments conform with any legal, statutory or regulatory requirements. Such payments will be structured so as to reflect performance achieved over time and to avoid rewarding failure or misconduct. Any such award for an MRT will be subject to RemCo approval.

No termination payment, above contractual entitlements, will normally be awarded to any employee resigning to take up alternative employment and / or where there is an obvious failure which allows for the immediate cancellation of the contract or the dismissal of the employee.

(c) Description of the ways in which current and future risks are taken into account in the remuneration processes

Risk analyses are included within both the annual bonus considerations for MRTs and in the long-term incentive plans for those in receipt of such awards (including MRTs).

In order to assist RemCo in its review of current and future risk matters the CRO will collate performance into a report summarising outcomes across a range of the Group's key risk areas. For the 2024 financial year these were capital, liquidity, operational risk events, conduct, credit losses and any regulatory breaches. The assessment will include a 'score' for each element of risk, combined into a total score which will then be reflected in a proposed adjustment to the maximum allowable risk element of any variable pay award. The Committee (including where possible the Chair of the RCC) will consider this report and use it to inform its determination of the appropriate level of adjustment to any variable pay award. The Committee may reduce or cancel the payment of variable remuneration where it deems appropriate in light of any emerging or potential risks.

Details of the approach to ex-post risk adjustment are included under (b)(ii) above.

(d) The ratios between fixed and variable remuneration

In accordance with relevant regulatory requirements at the time, in 2021 the shareholders of the Company authorised it and its subsidiaries to apply a ratio of the variable to fixed components of remuneration for those individuals who are classified as MRTs of up to 2:1 (such that the variable component of total remuneration for each such individual shall not exceed 200% of the fixed component of total remuneration for that individual). This ratio remains in place.

(e) Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration

This disclosure addresses Article 450 1(e) of the Disclosure Part, which is not required for Small CRR Firms, such as the Group, under Article 433c (3). Therefore, this has not been presented.

(f) Description of the ways in which the Group seeks to adjust remuneration to take account of long-term performance

This disclosure addresses Article 450 1(e) of the Disclosure Part, which is not required for Small CRR Firms, such as the Group, under Article 433c (3). Therefore, this has not been presented.

(g) The description of the main parameters and rationale for any variable components scheme and any other non-cash benefit in accordance with point (f) of Article 450(1) CRR

This disclosure addresses Article 450 1(f) of the Disclosure Part, which is not required for Small CRR Firms, such as the Group, under Article 433c (3). Therefore, this has not been presented.

(h) Total remuneration for each member of the management body

Only required if requested by the regulatory authorities. No such request has been made.

(i) Information on whether Paragon benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR

This disclosure addresses Article 450 1(k) of the Disclosure Part, which is not required for Small CRR Firms, such as the Group, under Article 433c (3). Therefore, this has not been presented.

(j) Large institutions shall disclose the quantitative information on the remuneration of their collective management body, differentiating between executive and non-executive members in accordance with Article 450(2) CRR

The Group does not meet the criteria of a large institution and therefore this disclosure is not required.

17.2. UK REM1 - REMUNERATION AWARDED FOR THE FINANCIAL YEAR

£m			a	b	c	d
			MB ² Supervisory function	MB ² Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	8	2	12	35
2		Total fixed remuneration	0.9	1.7	4.0	4.9
3		Of which: cash-based	0.9	1.4	3.9	4.9
4		(Not applicable in the UK)	-	-	-	-
UK-4a		Of which: shares or equivalent ownership interests	-	0.3	0.1	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	0.3	0.1	-
UK-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the UK)	-	-	-	-
7		Of which: other forms	-	-	-	-
8		(Not applicable in the UK)	-	-	-	-
9	Variable remuneration	Number of identified staff	-	2	11	31
10		Total variable remuneration	-	3.3	5.0	3.0
11		Of which: cash-based	-	0.7	1.1	0.7
12		Of which: deferred	-	-	-	-
UK-13a		Of which: shares or equivalent ownership interests	-	2.6	3.9	2.3
UK-14a		Of which: deferred	-	2.6	3.9	2.3
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	N/A ¹	N/A ¹	N/A ¹	N/A ¹
UK-14b		Of which: deferred	N/A ¹	N/A ¹	N/A ¹	N/A ¹
UK-14x		Of which: other instruments	N/A ¹	N/A ¹	N/A ¹	N/A ¹
UK-14y		Of which: deferred	N/A ¹	N/A ¹	N/A ¹	N/A ¹
15		Of which: other forms	N/A ¹	N/A ¹	N/A ¹	N/A ¹
16		Of which: deferred	N/A ¹	N/A ¹	N/A ¹	N/A ¹
17	Total remuneration (2 + 10)		0.9	5.0	9.0	7.9

Notes:

¹Certain rows of the template relating to variable remuneration are only applicable to Level 1 banks and therefore these have not been presented.

²MB refers to the Management Body, in the Group's case, its Board of Directors. 'Supervisory function' relates to the Chair of the Board and the non-executive directors, 'management function' to the executive directors.

17.3. UK REM2 - SPECIAL PAYMENTS TO STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTIONS' RISK PROFILE

No special payments have been made to staff whose professional activities have a material impact on the Group's risk profile and therefore template UK REM2 has not been presented.

17.4. UK REM3 - DEFERRED REMUNERATION

Template UK REM3 addresses Article 450 (1)(h) (iii) and (iv) and Article 450 1(j) of the Disclosure Part, which are not required for Small CRR Firms, such as the Group, under Article 433c (3). Therefore, this has not been presented.

17.5. UK REM4 - REMUNERATION OF 1 MILLION EUR OR MORE PER YEAR

Template UK REM3 addresses Article 450 (1)(j) of the Disclosure Part, which is not required for Small CRR Firms, such as the Group, under Article 433c (3). Therefore, this has not been presented.

17.6. UK REM5 - INFORMATION ON REMUNERATION OF STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTIONS' RISK PROFILE

Template UK REM5 addresses Article 450 (1)(g) of the Disclosure Part, which is not required for Small CRR Firms, such as the Group, under Article 433c (3). Therefore, this has not been presented.

18. Encumbered and unencumbered assets

This section sets out

- Encumbered and unencumbered assets
- Collateral received and own debt securities issued
- Sources of encumbrance

Encumbrance is the process of pledging assets to support a firm's borrowings and disclosures of encumbered and unencumbered assets are required by the Pillar III rules to enable readers to evaluate a firm's potential access to future funding.

18.1. UK AE4 - ACCOMPANYING NARRATIVE INFORMATION

(a) General narrative information on asset encumbrance (Article 443 CRR)

Asset encumbrance is the process by which assets are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn. The Group maintains a level of encumbrance commensurate with the scale and scope of its business operations, within the context of a robust and diversified funding capability.

Responsibility for monitoring the Group's use of asset encumbrance in financial transactions lies with ALCO.

Accounting values are used in all tables, the disclosures reflect the median of the four quarterly end-of-period values over the previous 12 months as prescribed by regulatory requirements.

The consolidation scope applied for the purposes of asset encumbrance disclosures is consistent with that applied for liquidity requirements.

There are also no differences between the treatment of transactions which have been deemed to have been pledged or transferred compared to their encumbrance status.

(b) Narrative information on the impact of the business model on assets encumbrance and the importance of encumbrance to the Group's business model, which provides users with the context of the disclosures required in Template UK AE1 and UK AE2 (Article 443 CRR)

i. the main sources and types of encumbrance

The majority of the Group's encumbrance arises from its securitisation transactions and from activity in connection with Bank of England facilities intended to support lending. Assets are encumbered in accordance with the contractual requirements of these transactions.

The Group has also issued asset backed loan notes in securitisations where some or all of the rated notes have been retained in order to be used as security in other funding transactions. Such notes are not shown on the group balance sheet but where they are pledged as security, the appropriate proportion of the underlying assets are considered to be encumbered.

The Group was approved to participate in the Bank of England SME Term Funding Scheme ('TFSME'), which was launched in the year ended 30 September 2020 in response to the Covid pandemic. Drawings under the scheme are secured on mortgages pools or retained securitisation notes, subject, where necessary, to a haircut. The Group had drawn £750.0m under TFSME by 30 September 2024 (2023: £2,750.0m). The Group also participates in the Bank of England ILTR, which creates encumbrance in the same way. At 30 September 2024, £5.0m of ILTR drawings were outstanding (2023: £nil).

These schemes provide access to funding appropriate for the Group's operations having a four-year term with interest payable at the Bank of England base rate, using either mortgage assets or mortgage securities as collateral. This makes these borrowings readily accessible and cost-effective for the Group.

Further mortgage assets of the Bank have been pre-positioned with the Bank of England for use in the ILTR and other funding schemes.

The Group also enters into sale and repurchase ('repo') transactions with UK financial institutions, from time-to-time. These transactions give rise to encumbrance, generally of the Group's retained securitisation notes, although investment securities may also be used. At 30 September 2024, the Group had outstanding indebtedness under repo arrangements of £100.0m (2023: £50.0m).

The Group has also given an effective charge over its head office building as a guarantee for contributions payable to its defined benefit pension plan, encumbering the asset. Assets relating to collateral paid to third parties under financial derivative contracts, and, before the scheme was withdrawn in March 2024, Cash Ratio Deposits ('CRDs') placed with the Bank of England are treated as encumbered for the purposes of the disclosures below.

ii. the structure of encumbrance between entities within a group

There is no material difference in the level of encumbrance on a group or individual basis other than the encumbrance created in individual companies by securitisation arrangements which relate to securities held by other group entities.

iii. information on over-collateralisation

In the Group's borrowing arrangements overcollateralisation arises as a result of requirements to provide first loss funds, or similar support, or from any requirement for a 'haircut' to asset values before they can be used as security, as is the case with the various central bank funding schemes.

iv. additional information on encumbrance of assets

All encumbered assets are denominated in UK pounds sterling.

v. proportion of items included in column 060 'Carrying amount of unencumbered assets' in template UK AE1 that the Group would not deem available for encumbrance in the normal course of its business

In the normal course of business the Group would only encumber loan assets or investment securities and, by encumbering retained notes, the cash, derivatives and sundry balances of retained securitisations.

Other unencumbered assets include cash-in-hand, derivative assets, pension surplus, property, plant and other fixed assets and intangible assets including goodwill. These would not generally be deemed available for encumbrance in the normal course of business, except as part of a retained securitisation or similar structure, as described above.

vi. the amount of underlying assets and of cover pool assets of retained securitisations and retained covered bonds

The Group has assets totalling £2,339.1m underlying retained securitisation issuance included as unencumbered in table UK AE1 (interpolated median basis). The Group has not issued any covered bonds.

vii. the impact of the Group's business model on their level of encumbrance

The Group manages its level of encumbrance in accordance with the approved limits within its liquidity and funding risk strategies, and endeavours to ensure that a ratio covering depositor liabilities with unencumbered assets is maintained during normal business conditions. It continues to work closely with its regulators to ensure that its encumbrance profile remains transparent, proportionate and relevant to the business model.

viii. additional information on the breakdown of rows in the templates UK AE1, UK AE2 and UK AE3

Templates UK AE1, UK AE2 and UK AE3 are required to present interpolated median figures for the four quarter ends in the year ended 30 September 2024, on a line by line basis, and therefore may not cast.

Additional lines have been added to the tables UK AE1, UK AE2 and UK AE3 to present additional detail on the Group's position. The encumbered assets comprise the Group's loans pledged under TFSME, CSA collateral received, Cash Ratio Deposit ('CRD') assets (which were held in the early part of the year, before the termination of the CRD scheme), the Homer Road building which is encumbered to the Pension fund under the PFP and assets in the Group's securitisations including the cash, derivatives and sundry assets in the SPV companies, in so far as the securities issued in these transactions were externally held at the relevant quarter end.

18.2. UK AE1 - ENCUMBERED AND UNENCUMBERED ASSETS

£m		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	3,046.2	N/A¹			16,458.0	N/A¹		
030	Equity instruments	-	N/A ¹	-	N/A ¹	-	N/A ¹	-	N/A ¹
040	Debt securities	-	N/A ¹	-	N/A ¹	245.6	N/A ¹	245.6	N/A ¹
050	<i>of which: covered bonds</i>	-	N/A ¹	-	N/A ¹	-	N/A ¹	-	N/A ¹
060	<i>of which: securitisations</i>	-	N/A ¹	-	N/A ¹	-	N/A ¹	-	N/A ¹
070	<i>of which: issued by general governments</i>	-	N/A ¹	-	N/A ¹	245.6	N/A ¹	245.6	N/A ¹
080	<i>of which: issued by financial corporations</i>	-	N/A ¹	-	N/A ¹	-	N/A ¹	-	N/A ¹
090	<i>of which: issued by non-financial corporations</i>	-	N/A ¹	-	N/A ¹	-	N/A ¹	-	N/A ¹
120	Other assets	3,046.2	N/A ¹			16,212.4	N/A ¹		
	<i>of which: mortgage loans</i>	3,007.5	N/A ¹			10,203.1	N/A ¹		
	<i>of which: other loans to customers</i>	-	N/A ¹			2,125.2	N/A ¹		
	<i>of which: cash balances</i>	5.9	N/A ¹			3,079.9	N/A ¹		

Note:

¹Annex XXXVI specifies that asset quality indicators by asset type in columns C030, C050, C080 and C100 of template UK AE1 only applies to credit institutions with total assets amounting to more than EUR 30 billion and as the Group's assets do not exceed this threshold, these columns have not been disclosed.

18.3. UK AE2 - COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED

£m		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	Collateral received by the reporting institution	-	N/A ¹	-	N/A ¹
140	Loans on demand	-	N/A ¹	-	N/A ¹
150	Equity instruments	-	N/A ¹	-	N/A ¹
160	Debt securities	-	N/A ¹	-	N/A ¹
170	<i>of which: covered bonds</i>	-	N/A ¹	-	N/A ¹
180	<i>of which: securitisations</i>	-	N/A ¹	-	N/A ¹
190	<i>of which: issued by general governments</i>	-	N/A ¹	-	N/A ¹
200	<i>of which: issued by financial corporations</i>	-	N/A ¹	-	N/A ¹
210	<i>of which: issued by non-financial corporations</i>	-	N/A ¹	-	N/A ¹
220	Loans and advances other than loans on demand	-	N/A ¹	-	N/A ¹
230	Other collateral received	-	N/A ¹	-	N/A ¹
240	Own debt securities issued other than own covered bonds or securitisations	-	N/A ¹	-	N/A ¹
241	Own covered bonds and asset-backed securities issued and not yet pledged			2,228.7	N/A ¹
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	3,046.2	N/A ¹		

Note:

¹Annex XXXVI specifies that the disclosure of asset quality indicators by asset type in columns C030 and C060 of template UK AE2 is only required for credit institutions with total assets amounting to more than EUR 30 billion. The Group's assets do not exceed this threshold and therefore these columns have not been disclosed.

18.4. UK AE3 - SOURCES OF ENCUMBRANCE

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
£m		010	030
010	Carrying amount of selected financial liabilities	1,715.3	3,019.9
	Asset backed securities	14.9	50.7
	Secured bank borrowings	1,600.0	2,864.5
	Central bank borrowings	100.0	111.8
	Other sources of encumbrance	-	21.5

19. IRB approach for credit risk

The following templates have not been presented as they apply to institutions that calculate the risk-weighted exposure amounts for credit risk under the IRB approach. As the Group does not currently have any IRB approvals, these are not currently applicable.

- UK CRE – Qualitative disclosure requirements related to IRB approach
- UK CR6 – IRB approach – Credit risk exposures by exposure class and PD range
- UK CR6-A – Scope of the use of IRB and SA approaches
- UK CR7 – IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques
- UK CR7-A – IRB approach – Disclosure of the extent of the use of CRM techniques
- UK CR8 – RWEA flow statements of credit risk exposures under the IRB approach
- UK CR9 – IRB approach – Back-testing of PD per exposure class (fixed PD scale)
- UK CR9.1 – IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)
- UK CR10 – Specialised lending and equity exposures under the simple risk weighted approach (IRB – Slotting Model)

20. Glossary

This section sets out

- A listing of defined terms used in the document

AIRB	Advanced IRB	CRO	Chief Risk Officer
ALCO	Asset and Liability Committee	CRR	Capital Requirements Regulation (EU Regulation 575 / 2013)
AMA	Advanced Measurement Approach (for operational risk)	CSA	Credit Support Annex
ASA	Alternative Standardised Approach (for operational risk)	CVA	Credit Valuation Adjustment
ASF	Available Stable Funding	EAD	Exposure at Default
AT1	Additional Tier-1	ECA	Export Credit Agency
Bank	Paragon Bank PLC	ECAI	External Credit Assessment Institution(s)
BBLS	Bounce Back Loan Scheme	ECL	Expected Credit Loss
BCBS	Basel Committee on Banking Supervision	EDI	Equality, Diversity and Inclusion
BIA	Basic Indicator Approach (for operational risk)	ERC	Executive Risk Committee
B4NZ	Bankers for Net Zero	ERMF	Enterprise-wide Risk Management Framework
CBILS	Coronavirus Business Interruption Loan Scheme	EU	European Union
CC	Credit Committee	EV	Economic Value
CCC	Customer and Conduct Committee	EVE	Economic Value of Equity
CCF	Credit Conversion Factor	FCA	Financial Conduct Authority
CCP	Central Counterparty	FIRB	Foundation IRB
CCR	Counterparty Credit Risk	FLA	Finance and Leasing Association
CCyB	CounterCyclical capital Buffer	Framework	Group Corporate Governance Policy Framework
CEO	Chief Executive Officer	Fully Loaded	Calculated as if the IFRS 9 transition relief were not available
CET1	Common Equity Tier-1	Group	Paragon Banking Group PLC and all its subsidiaries
CFO	Chief Financial Officer	Group Accounts	Annual Report and Accounts of Paragon Banking Group PLC for the year ended 30 September 2024
CIB	Chartered Institute of Bankers	G-SII	Global Systemically Important Institution
CML	Council of Mortgage Lenders	HQLA	High Quality Liquid Assets
Company	Paragon Banking Group PLC	IAS	International Accounting Standard(s)
CQS	Credit Quality Step	ICAAP	Internal Capital Adequacy Assessment Process
CRD	Capital Requirements Directive	ICR	Individual Capital Requirement
CRD IV	Fourth EU Capital Requirements Directive		
CRM	Credit Risk Mitigation		

IFRS	International Financial Reporting Standard(s)	RemCo	Remuneration Committee
ILAAP	Internal Liquidity Adequacy Assessment Process	RICS	Royal Institution of Chartered Surveyors
ILTR	Bank of England Indexed Long-Term Repo scheme	RLS	Recovery Loan Scheme
IMA	Internal Model Approach	RP	Recovery Plan
IMLA	Intermediary Mortgage Lenders Association	RSF	Required Stable Funding
IMM	Internal Model Method (for market risk)	Rulebook	The PRA Rulebook
IRB	Internal Ratings Based (approach to credit risk)	RWA	Risk Weighted Assets
IRRBB	Interest Rate Risk in the Banking Book	RWEA	Risk Weighted Exposure Amount
ISDA	International Swaps and Derivatives Association	SA	Standardised Approach (to credit risk)
LCH	LCH Limited	SA-CCR	Standardised Approach for Counterparty Credit Risk
LCR	Liquidity Coverage Ratio	SEC-ERBA	Securitisation External Ratings Based Approach
LGD	Loss Given Default	SEC-IRBA	Securitisation Internal Ratings Based Approach
LREQ	Liquidity Requirement (rules)	SFT	Securities Financing Transactions
LUSD	Short rates shock down followed by long rates shock up	SICR	Significant Increase in Credit Risk
MB	Management Body (in the Group's case, the Board of Directors)	SM&CR	Senior Manager and Certification Regime
MCR	Minimum Capital Requirement	SME	Small and / or Medium Sized Enterprise
MI	Management Information	SONIA	Sterling Overnight Index Average
MRC	Model Risk Committee	SOT	Supervisory Outlier Test
MRT	Material Risk Taker	SREP	Supervisory Review and Evaluation Process
M&A	the Group's Mergers and Acquisitions programme	SSPE	Securitisation Special Purpose Entity
NII	Net Interest Income	STS	Simple transparent and standardised securitisation
NMD	Non-maturing Deposit	SULD	Short rates shock up followed by long rates shock down
NSFR	Net Stable Funding Ratio	T1	Tier-1 (capital)
OCI	Other Comprehensive Income	T2	Tier-2 (capital)
ORC	Operational Risk Committee	TFSME	Term Funding Scheme with additional incentives for SMEs
ORMF	Operational Risk Management Framework	TSA	The Standardised Approach (for operational risk)
O-SII	Other Systemically Important Institution	UK	United Kingdom
PD	Probability of Default	UK Basis	The Group's leverage exposure on the basis set out by the PRA
PFE	Potential Future Exposure	VaR	Value at Risk
PRA	Prudential Regulation Authority		
PSP	Performance Share Plan		
PVA	Prudent Valuation Adjustment		
PwC	PricewaterhouseCoopers		
QCCP	Qualifying Central Counterparty		
RC	Replacement Cost		
RCC	Risk and Compliance Committee		
RCSA	Risk and Control Self-Assessment		



PARAGON BANKING GROUP PLC

51 Homer Road, Solihull, West Midlands B91 3QJ

Telephone: 0345 849 4000

www.paragonbankinggroup.co.uk

Registered No. 02336032