Paragon Banking Group PLC

Pillar III Disclosures - 30 September 2020

Contents

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. 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 these forward-looking statements other than in accordance with its legal or regulatory obligations (including under the Market Abuse Regulation, UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority).

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 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, such as the Covid-19 pandemic and ongoing challenges and uncertainties posed by the Covid-19 pandemic for businesses and governments around the world; potential changes in future 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 (including, without limitation, actions taken as a result of the Covid-19 outbreak); actions by the Group's competitors; the UK's exit from the EU which may result in a prolonged period of uncertainty, unstable economic conditions and market volatility, including currency fluctuations; general changes in government policy that may significantly influence investor decisions; 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, by European Regulation, 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 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
- Idem Capital, including loan assets acquired from third parties and legacy assets which share certain credit characteristics with them

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 which is implemented in the European Union ('EU') through the Capital Requirements Directive IV ('CRD IV'). The CRD IV text was formally published in the Official Journal of the EU in June 2013 and became effective from 1 January 2014. It is made up of the Capital Requirements Regulation ('CRR') (EU Regulation 575/2013), which is directly applicable to firms across the EU, together with the Capital Requirements Directive ('CRD'), which must be implemented through national law.

While the UK left the EU in January 2020, transitional arrangements in place at the reporting date (30 September 2020) meant that the CRR continued to apply to UK firms at that date.

The PRA, as prudential regulator of the Company, is the body responsible for implementing CRD IV in the UK. The Company has been operating under the Basel III regime since the authorisation of the Bank in 2014.

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.

CRD IV consists of three elements, or 'Pillars', which represent the key principles of the Basel III 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').
Pillar II	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'). 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 should be held, based on the identified risks and the risk management processes in place. A firm's Individual Capital Requirement ('ICR') is set by the PRA based on the ICAAP.
Pillar III	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. These requirements are set out in Part 8 of the CRR ('Part 8') as supplemented by secondary EU legislation and guidance issued by appropriate bodies.

Pillar III disclosure policy

The Company's Pillar III disclosures cover the Group as a whole, comprising the Company and 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 Paragon Bank PLC.

The Company's Disclosure Policy for its Pillar III disclosures is based on its Board of Directors' interpretation of the requirements of Part 8, having taken appropriate expert advice. The directors have regard to the guidelines on materiality issued, pursuant to Article 432(1) of the CRR, by the European Banking Authority ('EBA') in December 2014 (EBA/GL/2014/14). Disclosures which are required by the CRR, but which are considered to be immaterial in the context of the Group's operations and business model are not included. These include disclosures in respect of wrong way risk.

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. The annual 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 and approved by the Board of Directors in the same way as the Group's Annual Report and Accounts for the year.

Pillar III regulatory capital disclosures each year 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 Part 8 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 2020 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 2020 ('the Group Accounts'). In accordance with Article 434 of the CRR, where a disclosure required by Part 8 is made in the Group Accounts it need not be repeated in this document.

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 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. The names of all of these entities, and the basis on which they are considered to be subsidiaries of the Group are set out in note 66 to the Group Accounts.

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 Part 8 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, as such, may not agree directly to similar disclosures presented in the Group Accounts.

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.

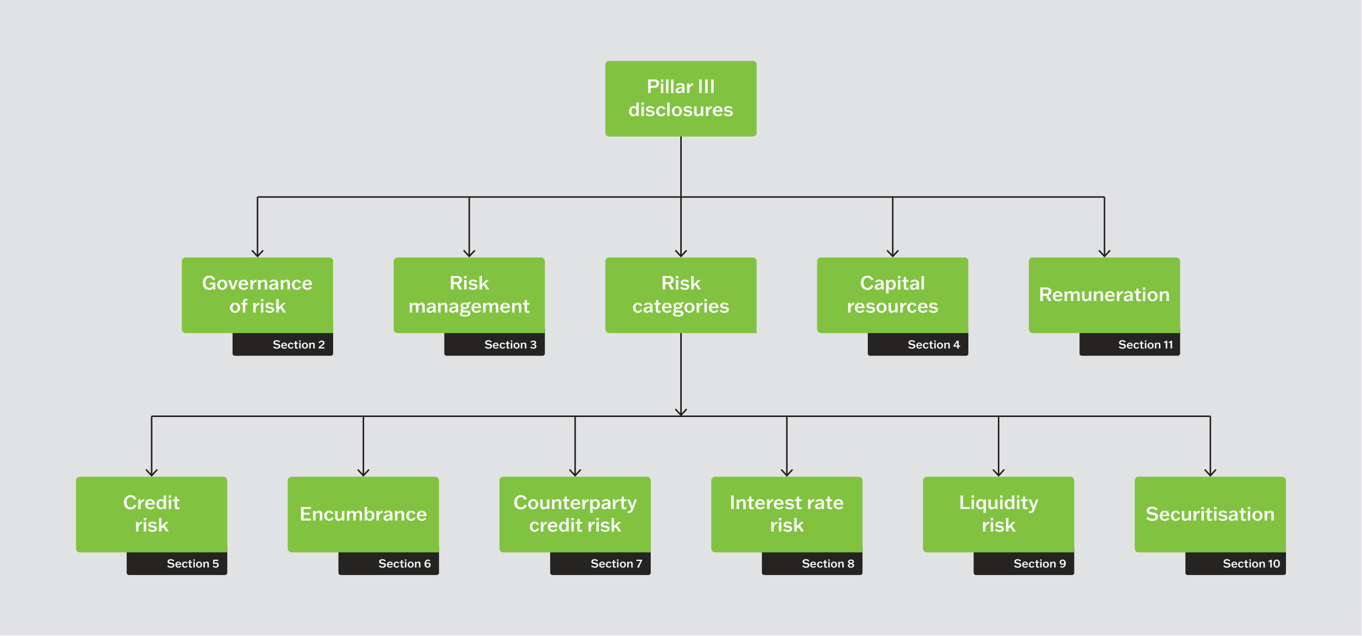
The Bank is required to prepare Remuneration Code Pillar III disclosures. These disclosures are included within this document, in Section 11, as the relevant members of staff work for both the Group and the Bank.

The Pillar III disclosures are published annually. The EBA guidelines on frequency of disclosures contained in EBA/GL/2014/14 contain a number of size-based indicators which are relevant in considering whether more frequent reporting is necessary. The Group is substantially below these thresholds. Notwithstanding this, the need for more frequent disclosures is considered by the Board. At this stage, more frequent disclosure is not deemed necessary.

Overview of disclosures

Part 8 sets out a series of disclosures which firms are required to make. For the purpose of this document these disclosures have been grouped thematically, as illustrated below.

Pillar III document overview



Where the CRR and its supporting technical standards require the publication of detailed templates as part of the document, these have generally been included in appendices and the useful information summarised in the main document.

Development in disclosures

In drawing up these disclosures the Group has considered new regulations and market practice and analysed Pillar III reports made by comparable UK lenders including those in the larger challenger banks and building societies to ensure that the level of detail given is broadly comparable.

The Group will continue to review market practice for Pillar III disclosures. It is considering the revised Pillar III disclosure requirements which were published by the BCBS in January 2015 and revised and enhanced in March 2017. These changes will be brought into effect within the EU through a revised Capital Requirements Regulation ('CRR 2'), which also addresses the scope of various Pillar 3 requirements. The implementation date for these requirements is after the UK's departure from the EU and there is to be a separate consultation on the extent these changes will apply to UK firms, and any related implementation dates.

The BCBS published further requirements in December 2018 which will also be incorporated in UK law in future periods and it is as yet unclear whether all EU Implementing and Regulatory Standards (ITS and RTS) currently in draft or issued but not in force will be applied in the UK.

The Group will also develop its approach to reporting IRB exposures within its Pillar 3 as part of the wider IRB project.

Approval

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

- The Board's consideration of the Group Accounts
- The ICAAP and the directors' input into this process
- The Individual Liquidity Adequacy Assessment Process ('ILAAP') 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.

The Group went through the annual ICAAP process during the year. The ICAAP was prepared under the direction of the 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 and was formally approved by the Board in March 2020. 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 will review the 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.

The Group's regulator carried out a Supervisory Review and Evaluation Process ('SREP') based on the ICAAP submitted in 2017, the conclusion of which was that the actual level of the Group's capital was in excess of the minimum requirements. A further SREP was recently carried out by the regulator on the basis of the 2020 ICAAP, the outcome of which is expected in the first quarter of the 2021 calendar year. 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, taken with the Group Accounts, the document properly represented the Group's position for the purposes of Part 8 of the CRR
- 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 in January 2021.

2. Governance

This section sets out
• The Group's approach to corporate governance
• Details of the governance framework operated by the Company
• Where further, more detailed, information on these matters can be accessed

Corporate governance approach

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

The Board of Directors is responsible for promoting the long-term, sustainable success of the Group, generating value for shareholders and contributing to wider society. It establishes the Group's overall purpose, values and strategy and ensures that these and the Group's culture are aligned. The Board is also responsible for delivery of these within a robust corporate governance framework. The Board of the Company and its subsidiaries are supported by the Group Corporate Governance Policy Framework ('the Framework'). The Framework provides key components of how the Board and its committees govern the business of the Company.

The Board is committed to the principles of corporate governance contained in the UK Corporate Governance Code issued by the Financial Reporting Council in July 2018 (the 'Code' or the '2018 Code'). The Board has considered the impact of the 2018 Code, which came into force from 1 October 2019 for the Company and, in anticipation of the Code taking effect, has made a number of amendments to practices and procedures, which it monitors on an ongoing basis to ensure compliance. Throughout the year ended 30 September 2020, the Company complied with the principles and provisions of the 2018 Code.

Code Compliance

During the year under review, the Company adopted the 'comply and explain' approach under Provision 10 of the 2018 Code to extend a director's tenure to more than nine years for succession planning purposes and to ensure the appointment of a suitable replacement non-executive director.

In February 2020, Peter Hartill's length of service reached nine years. However, the Nomination Committee and the Board considered Peter's re-appointment beyond nine years, and agreed that, due to his independence, skills and experience, Peter continued to make an effective contribution as a non-executive director and therefore agreed to extend Peter's tenure until a suitable replacement could be found and a proper hand-over period implemented. Peter stepped down from the Board with effect from 30 September 2020 following a successful handover of duties to Alison Morris, a new non-executive director and successor to Peter as Audit Committee Chair.

A more detailed analysis of how the Company complied with the specific provisions of the Code is set out in Section B2 of the Group Accounts.

Corporate governance framework

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

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

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

Throughout the year the independent non-executive directors have formed the majority of the Board and consequently there has been a strong non-executive representation on the Board, including the SID, providing effective balance and challenge. In addition to the general legal and regulatory responsibilities of all directors, non-executive directors' more specific responsibilities include providing independent oversight and determining appropriate levels of remuneration for executive directors.

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

During the year ended 30 September 2020 the Board comprised:

- Fiona Clutterbuck as Chair of the Board
- Nigel Terrington, Chief Executive Officer ('CEO') and Richard Woodman, Chief Financial Officer ('CFO') as executive directors
- Hugo Tudor, the Senior Independent Director, Barbara Ridpath, Finlay Williamson and Graeme Yorston as independent non-executive directors
- Alison Morris, who joined the Board as an independent non-executive director on 26 March 2020

In addition, John Heron served as an executive director until his resignation on 6 January 2020. Peter Hartill served as the Senior Independent Director until July 2020, and as an independent non-executive director until his resignation on 30 September 2020.

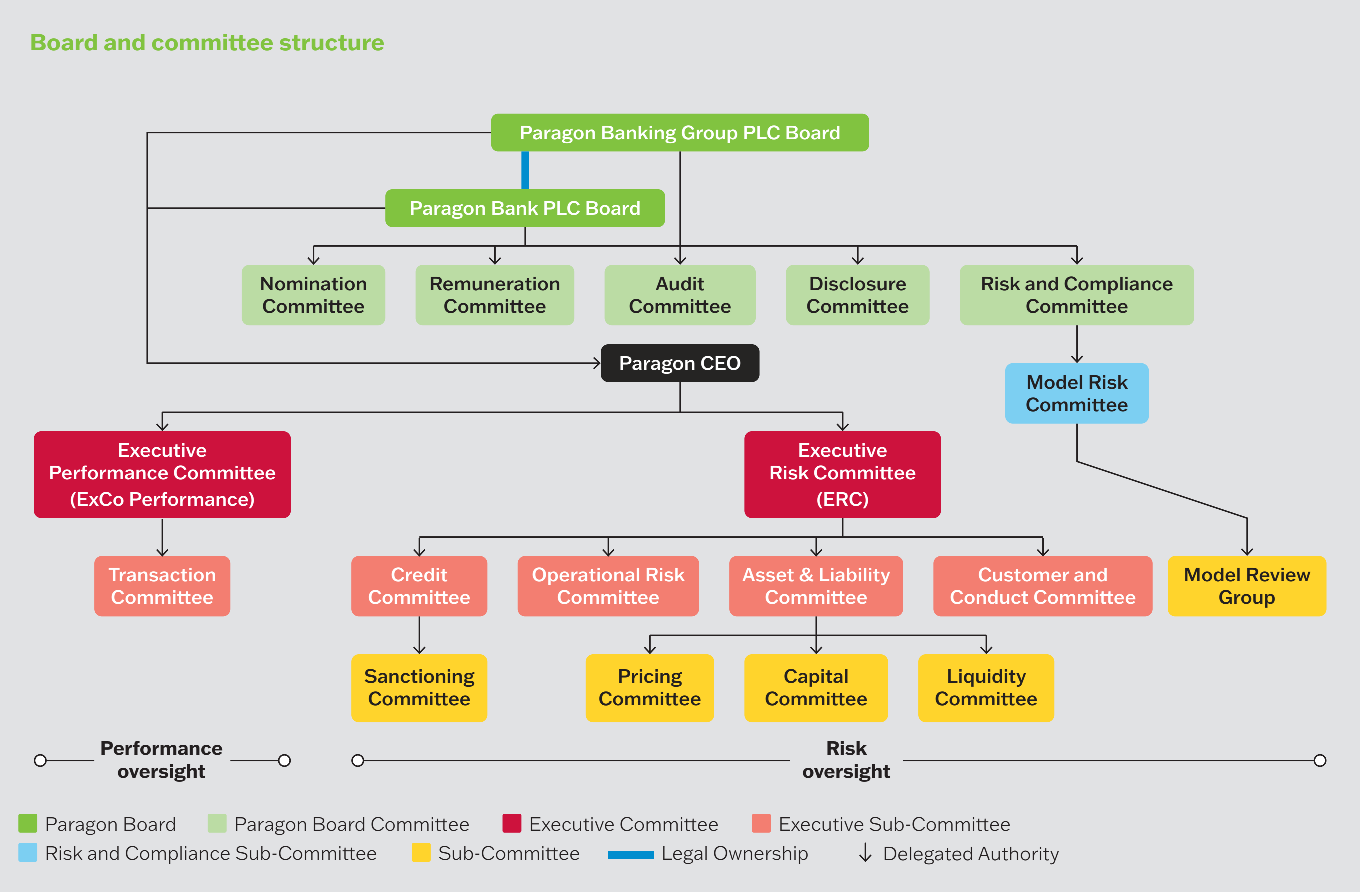
All the directors bring a broad and valuable range of experience to the Company and further details, together with other biographical details, are set out in Section B3.1 of the Group Accounts. The Chair's other business commitments are also set out in that section.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are complied with. Both the appointment and removal of the Company Secretary are matters for the Board as a whole. Marius van Niekerk was appointed as Company Secretary on 24 June 2020.

The division of responsibilities between the Chair, CEO and Senior Independent Director is clearly established, set out in writing, agreed by the Board and is available on the Group's website.

Board and Committee structure and membership

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



This structure was introduced in the year following a review of the existing board and governance framework in the light of the 2018 Code and current best practice.

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

Committee	Audit	Remuneration	Risk and Compliance	Nomination
Chair	A C M Morris*	H R Tudor	F F Williamson	F J Clutterbuck
Minimum number of meetings	4	3	4	2

* P J N Hartill until 24 June 2020.

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

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

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

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

On 27 October 2020, after the end of the financial year, Peter Hill was appointed to the Board as an independent non-executive director. He joined the Risk and Compliance Committee on appointment, and he succeeded Finlay Williamson as Chair of the Committee on 31 December 2020.

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

All committees operate within defined terms of reference and sufficient resources are made available to them to undertake their duties. The terms of reference of the Board's main committees, being Audit, Disclosure, Nomination, Risk and Compliance and Remuneration are reviewed annually and are available on the Group's website.

Matters reserved for the Board

The schedule of matters reserved for the Board, which is published on the Group's website, is reviewed annually and details key matters for which the Board is directly responsible. Whilst a number of matters are reserved for the Board, the Board delegates certain responsibilities and authorities to the CEO and board committees.

Board and committee attendance

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

Director	Board	Audit Committee	Risk and Compliance Committee	Remuneration Committee	Nomination Committee
Fiona J Clutterbuck	12 (12)	-	4 (4)	5 (5)	5 (5)
Nigel S Terrington	12 (12)	-	-	-	-
Richard J Woodman	12 (12)	-	-	-	-
John A Heron	3 (3)	-	-	-	-
Peter J N Hartill	12 (12)	5 (5)	4 (4)	4 (5)	5 (5)
Alison C M Morris	8 (8)	4 (4)	2 (2)	3 (3)	-
Hugo R Tudor	12 (12)	5 (5)	4 (4)	5 (5)	0 (0)
Barbara A Ridpath	12 (12)	5 (5)	4 (4)	-	5 (5)
Finlay F Williamson	12 (12)	5 (5)	4 (4)	-	-
Graeme H Yorston	12 (12)	-	4 (4)	5 (5)	5 (5)

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

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

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

Outside directorships

The number of other directorships of board members, outside the Group, disclosed in accordance with Article 235(2) of Part 8 are set out below. For the purposes of this disclosure directorships of related entities (eg two subsidiaries of the same group) are counted as a single appointment. Directorships in organisations which do not pursue predominantly commercial objectives are not included.

Director	Position	Number of external appointments
F J Clutterbuck	Chair of the Board	3
N S Terrington	Chief Executive Officer	-
R J Woodman	Chief Financial Officer	-
P J N Hartill	Non-executive director	1
A C M Morris	Non-executive director	2
H R Tudor	Non-executive director	3
B A Ridpath	Non-executive director	1
F F Williamson	Non-executive director	1
G H Yorston	Non-executive director	-

Further information

The Corporate Governance Section (Section B) of the Group Accounts includes a detailed review of the system of governance in the Group and the activities of the Board and its committees in the year. In particular, in the report of the Nomination Committee (Section B5), it addresses:

- The process for selecting members of the Board
- Succession planning in respect of the Board and senior management
- The Company's policy on diversity with regard to the selection of members of the Board

Further documentation relating to the governance framework is available on the Corporate Governance section of the Group's website at **www.paragonbankinggroup.co.uk**. This includes the following items:

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

3. Risk Management

This section sets out
• An overview of the Group's risk management processes, including - the underlying risk management model - the risk management framework - the process of risk governance • The principal risks to which the Group is exposed, identified through that process • 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 • A more detailed description of the Group's principal risks, and the main steps taken to mitigate against them

Introduction

The Group regards the effective identification, monitoring and control of risk as an integral part of its management processes.

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

Effective risk management is core to the execution of the Group's strategy. A key priority for the Group is to ensure that the framework continues to evolve to reflect the changing landscape and emerging threats. In order to support this the Group recognises the need for ongoing investment and enhancement in the enterprise-wide risk management system. The Group continues to ensure that the tools for effective risk identification, assessment and monitoring are appropriate and embedded at all levels across the Group. Significant work has been undertaken over the past 12 months, and is ongoing, to develop the framework to support the Group's strategic aspirations. This includes refinement of core risk processes, language and strengthening the committee structure to support effective challenge and escalation.

Risk Management Model

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

- The first line of defence, comprising executive directors, together with managers and employees in operational and support areas. Line 1 has day to day responsibility for:

  - Risk identification, assessment and measurement

  - Control and ongoing monitoring of operations

  - Escalation and reporting of risk issues in line with 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 is provided by the independent risk and compliance function. This division is headed by the Chief Risk Officer ('CRO'), who is a member of the Group's Executive Committee, the most senior management body. The function is overseen by the Risk and Compliance Committee and its supporting executive committees. Risk and Compliance provide support and independent challenge on all risk related issues specifically:

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

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

- Ensuring that risks generated by the business are measured, monitored, controlled and reported on a timely basis
- Maintaining open and constructive engagement with the regulatory authorities

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

- The third line of defence is provided by the Internal Audit function which is responsible for reviewing the effectiveness of the first and second lines of defence. This function is overseen by the Audit Committee. Internal Audit provides independent assurance on:
    - First and second lines of defence
    - The appropriateness and effectiveness of internal controls
    - Effectiveness of policy implementation

The risk management framework supports this model and is intended to provide a structured and disciplined approach to the management of risk within agreed appetites thereby supporting the achievement of the Group's strategic objectives.

The key objectives of the risk management framework are to:

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

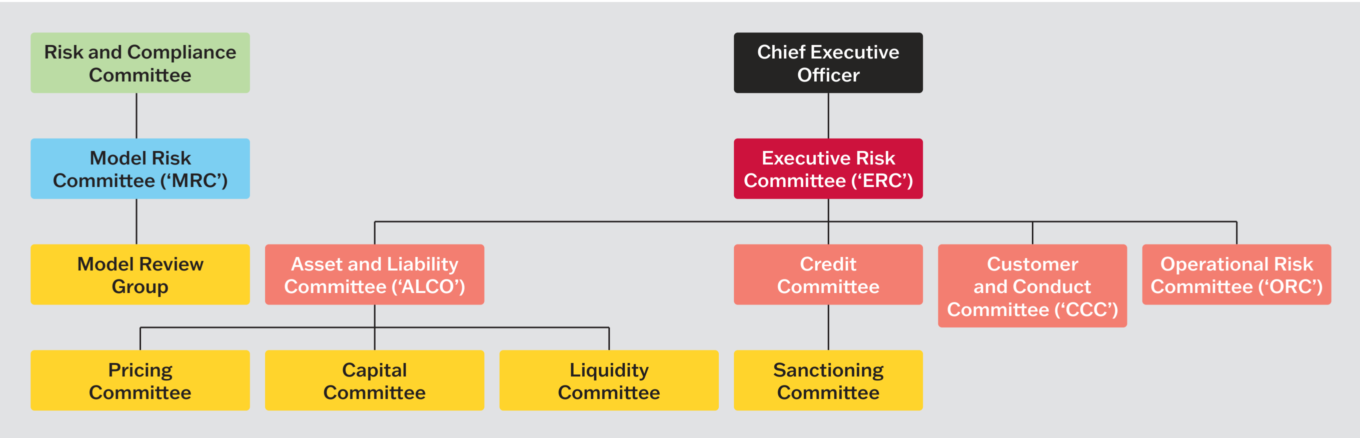
The maintenance of a standard, common risk language across the Group is a key enabler for risk identification and effective risk management. It provides a consistent basis for risk assessment and the development of policy, risk appetite and appropriate risk management structures. It also facilitates risk aggregation, risk reporting and segregation of accountabilities.

Risk Governance

The Board of Directors has overall responsibility for the governance of risk in the Group. The way it discharges these duties is set out below.

Committee structures

The Group has a number of board sub-committees and executive committees providing risk governance, the latter of which take their mandate directly from the CEO. The structure of these board and executive committees is shown below.



During the financial year, the Board reviewed the Group's broader committee structure, processes and procedures in order to enhance the wider governance framework and to further align it with the 2018 Code. As a result, the Executive Committee was designated into the Executive Performance Committee ('Performance ExCo') and the Executive Risk Committee ('ERC').

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

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

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

The oversight of risk in the Group is primarily conducted through the committees described below:

Risk and Compliance Committee

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

The Committee's responsibilities include reviewing:

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

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

The Risk and Compliance Committee meets at least four times a year and normally invites the executive directors, CRO, Chief Operating Officer and Internal Audit Director to attend its meetings. However, it reserves the right to request any of these individuals to withdraw or to request the attendance of any other Group employee. The Committee meets with the CRO at least once a year, without the presence of executive management, to discuss their remit and any issues arising from it.

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

Executive Risk Committee ('ERC')

ERC was established during the year to assist the CEO in designing and embedding the Group's risk management framework, monitoring adherence to risk appetite statements and identifying, assessing and controlling the principal risks within the Group. The ERC monitors the interaction and integration of the Group's business objectives, strategy and business plans with the Group's risk appetite and risk strategy and escalates breaches and significant matters to the Board Risk and Compliance Committee, recommending changes as appropriate.

Key areas of focus for the ERC include:

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

The ERC is supported by an executive level Asset and Liability Committee, Customer and Conduct Committee, Credit Committee, and Operational Risk Committee.

Each of the executive committees operates within terms of reference formally approved by the ERC. The primary functions of each of these committees are described below.

Asset and Liability Committee ('ALCO')

The ALCO comprises heads of relevant functions and is chaired by the CFO.

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

Customer and Conduct Committee ('CCC')

The CCC comprises heads of relevant functions and is chaired by the CRO.

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

Credit Committee

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

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

Operational Risk Committee ('ORC')

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

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

Model Risk Committee ('MRC')

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

Principal risks

As part of the risk management process described above, the Board has reviewed the risk exposures of the Group and has identified a number of principal risks which could impact significantly on its ability to conduct its business successfully. This categorisation of principal risks forms the basis of both the risk appetites set by the Board and the Group's internal risk reporting.

This list was reconsidered and amended during the course of the year, with a number of additional risks promoted to principal risk status. The currently defined principal risks are summarised below.

Category	Risk	Description
Capital	Capital	The risk that there is or will be insufficient capital to operate effectively including meeting minimum regulatory requirements, operating within board-approved risk appetite and supporting the Group's strategic goals.
Liquidity and Funding The risk that the Group has insufficient financial resources to enable it 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.	Funding concentration	Risk due to concentration of funding in particular products, delivery channels, markets and terms.
	Funding tenor	Risk to the maturity structure of the Group's funding due to external, internal or contractual events.
Market 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. The Group does not have a trading book, but the risk arises in the banking book.	Duration	Arises from assets and liabilities being linked to the same interest rate indices, but re-pricing at different dates.
	Basis	Arises from assets and liabilities linked to different rate indices which do not move in tandem.
	Optionality	Arises as the settlement of assets and liabilities is sometimes different from originally forecast.
	FX	Risk that changes in the relative value of currencies could result in financial loss.
Credit The risk of financial loss arising from a borrower or counterparty failing to meet their financial obligations to the Group when they fall due.	Customer	The risk that the Group is exposed to unexpected material losses from the failure to screen potential borrowers, underwrite new business, and manage repayments effectively.
	Concentration	The risk of loss that might occur from higher proportions of exposure within any area of lending or operation. The Group monitors and controls concentrations of loans, to amongst others, business lines, geographic regions, groups of customers and types of collateral.
	Collateral	The risk of financial loss occurring as the result of property or assets secured against debt owed to the Group reducing in value.
	Wholesale counterparty	The risk of failure of an institution holding the Group's investments or providing hedging facilities for risk mitigation which could expose the bank to loss or liquidity issues.
	Outsourcer default	The risk that, as a result of the Group outsourcing material activities to a third-party supplier, the Group is exposed to financial loss on the failure of that provider.
Model The risk that the Group may make incorrect decisions based on the 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.	Assumptions	The risk of an error in assumptions made anywhere in the model lifecycle, covering scope, data sourcing, development, testing, validation, implementation and maintenance which results in incorrect decisioning.
	Operation	The risk a model which has been scoped, developed, implemented and executed as expected may produce incorrect reporting if its use is not controlled or it is not operated in a safe, reliable and controlled environment.
Pension obligation	Pension obligation	There is a risk that the Group's commitments under its defined benefit scheme are insufficient to meet its liabilities, either due to adverse investment performance or inaccurate assumptions, including future inflation levels, members' salaries or mortality rates.

Category	Risk	Description
Reputational The risk of negative consequences arising from a failure to meet the expectations and standards of the Group's customers, investors, regulators or other counterparties whilst undertaking business activities.	Brand	The risk of deterioration in the inherent value of the Group's brand equity through adverse publicity which may result in an adverse impact on share price or loss of competitive advantage.
	Corporate responsibility	The risk that the Group's corporate responsibility approach does not promote commitment to practice environmental and social sustainability in the environmental and social landscapes in which it operates therefore creating negative consequences to the perception of the Group.
Strategic The risk that changes to the business model or macroeconomic, geopolitical, regulatory, competitive or other factors may lead to an inappropriate or obsolete business model, strategy or strategic plan.	Business	The risk that the Group is adversely exposed to factors either externally and/or by lack of innovation and overambitious targets that lower its profits or cause it to fail.
	Political	The risk that political decisions, economic action/inaction, events, or conditions significantly affect the Group or its market sectors, profitability or value.
	Acquisition	The failure to target appropriate acquisitions or manage effectively the transition and implementation risks resulting from material corporate acquisitions which may impact adversely on the Group's performance.
Climate Change The risk of climate changes impacting the Group either directly or indirectly through its third-party relationships. This includes the transitional risk to Paragon's strategy and profile through moving to a low carbon environment and any physical risks arising from changes to the natural environment.	Physical	The risk to the Group, its market sectors and supply chain of business disruption and loss caused by more frequent or severe man-made weather events such as flooding, droughts and storms.
	Transitional	The risk that the speed of transition towards a greener economy may have a significantly adverse effect on the Group's asset values and/or the cost of doing business.
Conduct 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 achieve fair outcomes for customers and /or the ability to demonstrate the Group is acting with integrity in the market.	Customer fair outcomes	The risk that the Group fails to put customers at the centre of how the business is run, culturally, strategically and operationally, failing to meet their needs and potentially leading to detrimental outcomes.
Operational The risk of financial and non- financial detriment resulting from inadequate or failed internal procedures, people and systems or from external events.	People	Failure of the Group to recruit, retain, develop and effectively lead/manage its people.
	Health and safety	Non-adherence to legislation and regulation in order to ensure the health, safety and welfare of employees, contractors, visitors and members of the public.
	Property	Property owned or occupied by the Group is subject to unauthorised access, physical damage or loss of services adversely affecting the effective operation of the business.
	Third party	Risk associated with the selection, procurement and delivery of goods and services from third party suppliers to the Group, and ensuring their ongoing management is in line with the Group's legal, regulatory and commercial obligations.
	Information technology and security	The Group's IT structure and systems are unable to support its operational needs, including failure to adequately protect against the threat of cyber-crime.

Category	Risk	Description
Operational (Continued) The risk of financial and non- financial detriment resulting from inadequate or failed internal procedures, people and systems or from external events.	Change	Poor implementation of business change including projects and programmes delivering new or amended processes, products or IT systems.
	Transaction processing	Poorly executed regular business transactions resulting in customer detriment and/or financial loss.
	Regulatory compliance	Failure to adhere to the legislation, regulations and guidelines relevant to the Group leading to regulatory censure, fines, legal recourse and the inability to carry out business as usual.
	Legal	Failure to act according to the law, meet contractual obligations, and manage disputes as a Group or with its customers or third parties.
	Data protection	The Group fails to comply with its data protection obligations with respect to confidentiality, integrity and availability leading to large fines and significant reputational damage.
	Financial crime	Failure to detect and/or prevent the Group from falling victim to offences of fraud, theft and money laundering across establishments, products and services. Failure to fulfil regulatory and legal obligations on all aspects of financial crime legislation and to prevent any form of potential bribery, corruption or terrorist fundraising through normal business activity.
	Corporate governance	Failure of the processes and structures by which the Group is directed and controlled by its Board of Directors, executive management, business units and support functions. This results in inappropriate management information to enable effective decision making.
	Financial control and reporting	Incorrect accounting, reporting and financial management resulting in financial misstatement, poor decision making and associated losses for the Group.

While the Risk and Compliance Committee and the ERC have responsibilities across all areas of risk, the risk committees primarily responsible for these principal risk areas are set out below:

Committee	Principal risk
ERC	Strategic Risk Reputational Risk Climate Change Risk
ALCO	Capital Risk Liquidity and Funding Risk Market Risk Pension Risk
Credit Committee	Credit Risk
CCC	Conduct Risk
MRC	Model Risk
ORC	Operational Risk

A more detailed analysis of each of the principal risks and the nature of the Group's exposure to them is set out later in this section.

Risk appetite statements

For each of the principal risks identified above the Board determines its appetite for risk. This appetite is articulated in the risk appetite statements, which underpin the Group's internal reporting on risk.

Introduction

The Group is committed to maintaining an effective Risk Management Framework that is responsive to both internal and external events and stresses. As part of this framework, the Board has set statements of risk appetite, consistent with its desire to be a prudent, risk focussed, specialist lender which places the delivery of fair outcomes for its customers at the heart of its activities. These statements are reviewed and updated at least annually.

Risk appetite is defined as the amount and type of risk which the Group is prepared to seek, accept or tolerate in pursuit of its long-term business objectives. By setting defined risk appetites, the Board communicates the level of acceptable risk and mandates that the risk is proactively managed within those parameters.

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

In determining the Group's risk appetite, key considerations include:

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

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

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

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

Risk appetite principles

In determining its approach to the setting of risk appetite, core principles have been agreed by the Board.

In summary these principles are that risk appetite must:

- Be defined and owned by the Board with periodic reviews to ensure the risk appetites remain up to date, relevant and appropriate
- Include quantitative and qualitative measures which are at a sufficiently granular level to be meaningful to the Board and to the business, but not be too numerous or broad to obscure key elements that may require attention
- Be robust and subjected to stress testing and scenario analysis, considering recent economic, political and regulatory developments
- Be reviewed at the ALCO, ORC, CCC and Credit Committee against performance measures with any immediate findings escalated to the Board

Qualitative risk appetite measures

In defining its risk appetite, the Board has established core high level qualitative requirements that are intended to describe the overall risk landscape within which it wishes the Group to operate. These include:

- The Group's strategic objective is to be a prudent, risk focussed, specialist lender operating predominantly in the UK with a closely controlled, cost efficient operating model which places the delivery of fair customer outcomes at its core
- The Board expects executive management to develop and maintain a culture in relation to the management of risk that is consistent with its stated risk appetite
- The Board regards the Group's strong specialist underwriting capabilities as a competitive advantage, but it has no appetite for the origination of unaffordable loans to borrowers
- The Board expects the overwhelming majority of originated loans to be secured on assets located within the UK

- The Board requires all treasury investment counterparties to be reputable, high quality institutions as defined by the minimum external rating criteria documented within the Group's treasury policies
- The Board requires the Group to maintain access to wholesale secured funding markets to ensure it is able to supplement the flow of retail deposits with alternative stable funding should the need arise. However, the Board has limited appetite for asset encumbrance to avoid impediments to recovery and resolution options and the Group must hold sufficient unencumbered assets to cover all retail deposits
- The Board has no appetite for any risk arising from a material failure to deliver fair outcomes for customers. The fair treatment of customers is viewed as central to the achievement of the Group's strategic business objectives
- The Board has no appetite for material breaches to information security
- The Board has no appetite for material breaches to regulatory compliance or for accepting business than contravenes regulation or legislation
- The Board has limited appetite for any uncovered exposure to interest rate or foreign currency movements which could materially impact earnings
- The Board wishes to maintain capital, in terms of both quantity and quality, at a level sufficient to cover all known current and anticipated future risks and to cover a range of severe but plausible stressed scenarios
- The Board wishes to utilise capital to generate a strong, stable return for shareholders. As a banking group, its ongoing viability is dependent upon the level of confidence in its future held by its customers, shareholders, regulators and employees
- The Board therefore has no appetite for exposing itself to levels of risk that could lead to losses which would erode the Group's existing capital base

Quantitative risk appetite measures

In setting its key quantitative risk appetite statements, the Board has sought to ensure that:

- The Group's strategic objectives are aligned to its risk appetite
- Quantitative measures are consistent with the Group's overarching qualitative risk appetite statements

The Board's key quantitative risk appetite statements have been structured in line with the Group's standard risk categorisation. In each case, the key quantitative risk appetite statements indicate the following:

- The respective risk category within which the measure sits
- The specific limits, triggers and targets
- An identified executive management owner for each measure

The key measures used to define the Group's most material quantitative risk appetite statements are set out below. The process of defining key measures for the principal risks newly defined in the year is ongoing.

The key measures used to define the Group's most material quantitative risk appetite statements are set out below:

<table>
<tr><th colspan="8">CAPITAL RISK</th></tr>
<tr><td>Key capital ratios</td><td colspan="7">CET1 / Total Capital ratios
The key capital ratios above form the basis of all strategic decisions. The risks identified below are considered in conjunction with the capital ratios in order to determine other business decisions.</td></tr>
<tr><th colspan="8">OTHER RISKS</th></tr>
<tr><th></th><th>Credit</th><th>Strategic</th><th>Pension</th><th>Market</th><th>Liquidity</th><th>Operational</th><th>Conduct</th></tr>
<tr><td rowspan="10">Key quantitative measures</td><td>BTL new completions borrower credit profile</td><td>RoTE target</td><td>Pension Plan Exposure</td><td>Interest rate risk management</td><td>Liquidity coverage ratio</td><td>Material operational risk events</td><td>Complaint levels</td></tr>
<tr><td>BTL new completions borrower affordability</td><td></td><td></td><td></td><td>Net stable funding ratio</td><td>Issue management</td><td>Complaint resolution</td></tr>
<tr><td>BTL new completions credit collateral quality</td><td></td><td></td><td></td><td>Overall liquidity adequacy rule</td><td>IT resilience</td><td>Quality assurance testing</td></tr>
<tr><td>BTL Portfolio large exposures</td><td></td><td></td><td></td><td>Unencumbered assets to deposit ratio</td><td>Cyber security</td><td></td></tr>
<tr><td>BTL IRB RW density</td><td></td><td></td><td></td><td>HQLA coverage of Pillar 1 LCR and PRA Pillar 2 liquidity</td><td>Resource capacity</td><td></td></tr>
<tr><td>BTL IRB RWA credit concentration</td><td></td><td></td><td></td><td>Parent company liquidity</td><td></td><td></td></tr>
<tr><td>Dev Finance portfolio performance and plan quality</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>SME Finance borrower credit profile</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>SME Finance arrears and loans</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Largest wholesale counterparty exposure</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="4">Key qualitative measures</td><td>Prudent lending standards</td><td>Specialist markets</td><td>Support for plan while protecting capital</td><td>Limited exposure to interest rate movements</td><td>Availability of funding</td><td>Controlled costs</td><td>Fair outcomes</td></tr>
<tr><td>Strong specialist underwriting</td><td>Income diversification</td><td></td><td>Very limited exposure to foreign exchange risk</td><td></td><td>Risk culture</td><td>No compliance breaches</td></tr>
<tr><td>UK focus</td><td>Acquisition integration</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>High quality institutional obligors</td><td>New business development</td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Board assessment of risk management arrangements

As part of the process of risk governance, the Board of Directors consider annually the operation of the Group's risk management arrangements and whether they have functioned appropriately.

Throughout the year ended 30 September 2020, the directors have inevitably been focussed on the actual and potential impacts of Covid-19 on the Group. The key challenges faced were assessing and responding to the immediate impacts as the country went into lockdown in March 2020 and also looking to the future as to how the Group's strategy and risk management approach consider possible longer-term impacts. This has included consideration of regulatory impacts, impacts on the Group's markets and customers, and impacts on the Group from general economic effects. The results of these considerations continue to feed into the Group's forecasting and risk assessment as the pandemic continues.

The Group's risk management framework has provided a robust mechanism to ensure that new risks are promptly identified, assessed, managed and appropriately overseen from a risk governance perspective. This has assisted the Board in providing clear oversight around key changes resulting from Covid-19.

- New risks arising from the provision of CBILS and BBLS including process changes and underwriting decisions
- Changes to technology and infrastructure required to facilitate mass home working especially where this practice had never previously been undertaken in many of the customer facing roles
- A revision of credit policies and decisioning to reflect the challenges around lending criteria
- The requirement to support the implementation of payment holidays as per the government initiatives together with other forbearance solutions across all product lines
- Developing plans to enable a Covid-19 safe return to the office and the implications of this for the longer-term workplace strategy

Whilst Covid-19 has and continues to be high on the Board's agenda, the directors, as members or attendees of the Risk and Compliance Committee continued to undertake reviews on a quarterly basis which included:

- Reviews of the principal risks facing the Group
- Consideration of new or emerging risks and regulatory developments
- Consideration and challenge of the ratings applied to the various risk categories to which the Group is exposed
- Consideration of the Group's compliance with the risk appetites set by the Board and the continuing appropriateness of these risk appetites
- Consideration of the root causes and impact of material risk events and the adequacy of actions undertaken by management to address them

During the year, directors held focussed in-depth sessions to review risk and risk management as part of the annual strategy day. The results of this exercise were fed back into the Group's risk management process.

In addition, the directors specifically considered the impact on risk and viability through review and approval of key risk assessments for the Group, including the ICAAP, ILAAP and its Recovery Plan ('RP').

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

The directors concluded that those activities, taken together, constituted a robust assessment of all of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These principal risks are set out earlier in this section and detailed further below.

Principal risks and mitigations

A more detailed discussion of the identified principal risks, how the Group seeks to mitigate those risks and the change in the perceived level of each risk in the last financial year ended 30 September 2020 is set out below.

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

This summary should not be regarded as a complete statement of all potential risks and uncertainties faced by the Group but rather those which the Group believes have the potential to have a significant impact on its financial performance and future prospects.

The risks are set out in accordance with the Group's amended classification of its principal risks, approved by the Board in the year. Therefore, the headings shown differ from those presented in previous reports. In particular, reputational risk, model risk and climate change risk are separately identified as principal risks for the first time.

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

Risk increasing	Risk decreasing	Risk stable
↑	↓	← →

Capital Risk

Description	Mitigation	Change
The Group faces the risk of insufficient capital to operate effectively, including meeting minimum regulatory requirements, operating within board-approved risk appetite and supporting the Group's strategic goals. The changes made in the Basel III capital regime by the BCBS regarding minimum capital requirements, which will now impact from January 2023 could impact on the Group. The BCBS changes include increases in risk weights for residential real estate exposures where repayment is materially dependant on cash flows generated by the property, which may include certain categories of buy-to-let lending. The Group's capital requirements would, therefore, be increased to some extent.	A robust process exists over Pillar 1 reporting with a comprehensive annual ICAAP assessment of all material risks. An internal capital buffer is maintained in excess of minimum regulatory requirements to protect against unexpected losses or risk-weighted asset growth. In order to further enhance its existing robust credit management capabilities and to mitigate the risks of the proposed BCBS changes, the Group took a strategic decision in 2016 to seek the necessary regulatory approval to implement an IRB approach for credit risk. The first stage of the Group's application for the accreditation of its IRB approach to credit risk for capital adequacy purposes was submitted to the PRA in March 2020. This phase of the application covers the Group's buy-to-let mortgage assets and considerable work has taken place to reach this stage. Models have been built and tested, governance frameworks enhanced, and IRB outputs are now being regularly considered internally. There is ongoing development of advanced models to enhance credit risk management and support the Group's continuing IRB application process.	← → Outside of the impact of Covid-19, which resulted in the delay of the BCBS changes by 12 months (to 2022) and policy amendments to the Pillar 2A regime there has been little impact on the overall capital risk framework and the Group's assessment of the likely impact of these changes. Further information on the Group's management of capital risk is given in note 54 to the Group Accounts.

Liquidity and Funding Risk

Liquidity and Funding Risk

Description	Mitigation	Change
The Group is exposed to the risk that increases in the cost or reductions in the availability of funding could adversely impact its business model and strategic objectives. The Group relies on its access to various sources of funding to finance the origination of new business, portfolio acquisitions and working capital. If access to funding became restricted, either through market movements or regulatory intervention, this might result in the scaling back or cessation of some business lines. 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. In addition, there is a risk that the Group has insufficient funds to meet its obligations as they fall due.	The Group maintains a diversified range of both retail and wholesale medium and long-term funding sources to cover future business requirements and liquidity to cover shorter term funding needs. The Group remains well funded with sufficient liquidity to meet all its financial obligations as they fall due. Internally, comprehensive treasury policies are in place to ensure sufficient liquid assets are maintained and that all financial obligations can be met as they fall due, even under stressed conditions. The Group, through Paragon Bank, is authorised to accept retail deposits. As such, it is subject to regulation by the PRA, which aims to ensure that sufficient liquid assets are held, at all times, to mitigate the liquidity risk inherent in deposit taking. A significant proportion of Paragon Bank deposits (97.3%) are protected under the Financial Services Compensation Scheme ('FSCS') which provides protection to customers and mitigates the risk of material retail outflows in stress scenarios. The Group has an experienced structured finance function which maintains relationships with major participants in the wholesale funding markets and which has been instrumental in many securitisation and debt issues. This gives it access to wholesale funding markets when required. The Group has a dedicated treasury function which is responsible for the day-to-day management of its overall liquidity and wholesale funding arrangements. The Board, through the delegated authority provided to the ALCO, sets limits as to the level, composition and maturity of liquidity resources. The completion in April 2020 of Paragon Mortgages (No. 27) plc, which was the Group's first fully retained securitisation, broadened its range of contingent funding resources. The Group also has a committed secured warehouse facility which has been used to more efficiently manage liquidity. The Group is also participating in the Term Funding Scheme with additional incentives for SMEs ('TFSME') with total drawings of £910.0m. Going forward, the Group intends to use securitisation selectively to mitigate its exposure to liquidity risk, ensuring, as far as possible, that the maturities of assets and liabilities are matched. The Company has a BBB investment grade credit rating from Fitch to support maintenance of its access to funding markets.	← → The Group remains well funded with sufficient liquidity to meet all its financial obligations as they fall due. It is well placed to access funding from a wide range of sources to meet its future funding requirements. During the year, the Group completed a fully retained securitisation which boosted its contingent funding options and also obtained access to the TFSME which remains open for drawings until April 2021. Although there has been strong competition for retail deposits, the overall risk is considered to have remained stable.

Market Risk

Interest Rate Risk and FX Risk

Description	Mitigation	Change
The Group is exposed to the risk that changes in interest rates at which it lends and those at which it borrows may adversely affect its net interest income and profitability. There are three aspects of interest rate risk that the Group measures and manages: • Duration or re-pricing gap risk. The risk created when interest rates on assets and liabilities reprice at different times • Basis risk. The risk arising where assets and liabilities reference different interest benchmarks which might not move in line with each other thereby negatively impacting earnings. For example, the Bank of England base rate, SONIA and LIBOR or rates set by the Group • Optionality or prepayment risk. The risk that assets and liabilities mature at different times from those forecast due to economic conditions or customer behaviour thereby creating unexpected mismatches	This risk is managed within Board approved risk appetite limits with comprehensive treasury polices in place to ensure that the risks posed by changes and mismatches in interest rates are effectively managed. Interest rate risk arises in the banking book. The Group does not operate a trading book. The Board's risk management framework for Interest Rate Risk in the Banking Book ('IRRBB') has evolved in line with updates in regulatory guidance on methods expected to be used by banks for controlling such risks. Day-to-day management of interest rate risk within board-approved limits is the responsibility of Treasury with control and oversight provided by ALCO. The Group seeks to match the maturity profile of assets and liabilities and uses financial instruments, such as interest rate swaps, to hedge the exposure arising from repricing gaps. Where assets and liabilities are linked to different interest rate benchmarks, limits are in place to restrict exposure to adverse shifts in the benchmarks. Analysis of customer behaviour in previous business as usual and stressed conditions is used to inform the management of the risk that assets and liabilities do not re-price in line with contractual maturities.	↑ The Group's market risk profile, relative to its balance sheet, has remained broadly similar and therefore associated risk levels remain generally stable compared to previous periods. However, with LIBOR expected to cease to exist before the end of December 2021, the Group will need to transition LIBOR referenced assets and liabilities to alternative risk-free rates, and this process is expected to increase interest rate risk over the next 12 months. A LIBOR Transition steering committee has been established to oversee the transition and the Group is working with several industry and regulatory bodies as part of the process.
FX risk is defined by the Group as follows: • The Group is exposed to the risk that its financial performance will be affected by fluctuations in the exchange rates between currencies	Most of the Group's business is denominated in GBP so material levels of FX risk do not occur in the ordinary course of business. Comprehensive treasury policies are in place to ensure that the risk posed by fluctuations in FX rates that does not exist is effectively managed.	The Group's FX risk profile, relative to its balance sheet, has remained broadly similar and therefore associated risk levels remain generally stable compared to previous periods.

Credit Risk

Customer Risk

Description	Mitigation	Change
Failure to screen potential borrowers, underwrite new business, and manage repayments effectively could expose the Group to the risk of unexpected material losses. Recoverable amounts on loans may also be affected by adverse movements in security values such as house and commercial asset prices.	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 in place that set out detailed criteria which must be met before loans are approved. 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. Exceptions to credit policies require approval by the credit risk function, operating under a mandate from the Credit Committee. 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 financial difficulty 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 credit risk function provides day-to-day control and oversight of the risks associated with lending via 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. The team also monitors the lending control structures to ensure compliance with the Group's Credit Policies, which it maintains. The credit risk function provides regular reports to the Credit Committee and Risk and Compliance Committee on the performance of each of the Group's lending portfolios. These reports also include updated borrower and asset evaluations to ensure that risk profiles are continuously tracked. The Group maintains a robust stress testing framework to assess its expected performance under a range of operating conditions, including falls in asset values and increases in interest rates. This framework provides the Board with an informed understanding and appreciation of the Group's capacity to withstand shocks of varying severities.	↑ At the onset of the Covid-19 pandemic, the Group immediately tightened credit criteria for new lending to preserve credit standards and reflect immediate lending uncertainty. In parallel, an extensive contact strategy was applied to ensure that appropriate support was provided to existing customers. The success of both of these measures is reflected in the return to normal payment schedules for the vast majority of customers who utilised a payment holiday, and by the continued low volume of arrears. The Group's credit discipline remains firm, but in view of the wider economic conditions, additional provision for credit losses has been allocated in line with our prudent, forward-looking view of loan performance.

Credit Risk

Concentration risk

Description	Mitigation	Change
Concentration risk in credit portfolios is measured as an uneven distribution of exposures to an individual and / or groups of borrowers, asset classes, or in a hierarchical dimension such as industry and services sectors (sector concentration) and / or geographical regions (region concentration).	Lending to customers investing in the UK private rented sector forms a substantial part of the Group's advances and assets. It is therefore exposed to any systemic deterioration in performance of the sector, which will be influenced by underlying factors such as house prices, supply of rental property, and demographic changes. The buy-to-let sector has been subject to a high level of fiscal and regulatory intervention in recent years. Where such changes make buy-to-let less attractive or viable to customers' businesses, the Group is exposed to adverse consequences. The Group has an established concentration risk policy that sets maximum limits applied to risk concentrations, for example, 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 on to the Risk and Compliance Committee. 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. The Group also continues to exploit opportunities to diversify the range of its activities and income streams, consistent with its strategic objective of operating as a prudent, risk focussed specialist lender. This has been illustrated in recent years by the evolution of its SME Lending business and the growth, organically and by acquisition, of its property development finance operation.	← → The Group's concentration of buy-to-let mortgage assets has remained stable throughout the year, with underlying balances increasing in line with the Group's balance sheet growth. Within that portfolio, landlord activity has increased in regions in outside of London and the South-east, and this has resulted in a broader distribution of buy-to-let property stock across the portfolio. The success of the diversification strategy is reflected in the growing contribution made by the property development finance function.

Credit Risk

Collateral risk

Description	Mitigation	Change
The Group is exposed to the risk of financial loss occurring as the result of collateral owned by the Group, or secured against debt owed to it, reducing beyond expected value due to external market forces or specific issues which might result in a forced sale, fire or theft, loss of title etc.	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. All buy-to-let mortgages and development finance loans are secured by way of a first legal charge on UK residential property, and in the case of the latter, additional charges and warranties related to the build are also required. 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. Security requirements are detailed in the credit policy applicable to each business line, and the authorisation of such polices is governed by the Credit Committee with oversight provided by executive and board level risk committees. All policies are subject to annual review. 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 buy-to-let mortgage and development finance origination valuations are provided by Royal Institution of Chartered Surveyors ('RICS') qualified surveyors who undertake their assessment via an on-site, physical inspection of each property. Heritable security is perfected by panel approved solicitors. The Risk and Compliance division includes a dedicated function responsible for the oversight of property risk, reporting through the governance structure to provide detailed market insight, and assurance on the valuation processes. Collateral exposure is a primary element of the credit risk management information presented to each meeting of the Credit Committee and executive risk committees. This takes the form of origination and completion asset profiling, as well as metrics reporting on the outstanding stock and large lending exposures.	UK property values continue to be supported by a shortage of stock, and supply of properties for sale. Positive house price inflation has improved collateral risk exposure over the reporting period. In the immediate period following the easing of lockdown restrictions and the subsequent re-opening of the property transaction market, demand for property has remained resilient and continues to support asset values. The Group remains vigilant in its monitoring of the sector particularly in respect of the possible impact of rising unemployment and reduced affordability as the government's Covid-19 measures are wound down. Collateral gearing limits for new originations have been lowered to maintain the Group's prudent collateral risk exposure.

Credit Risk

Wholesale counterparty risk

Description	Mitigation	Change
The Group is exposed to the failure of counterparties with which it places funds, or which provide hedging agreements to mitigate interest rate and foreign exchange 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 ALCO 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 and all cash deposits and derivative positions held within the Group's securitisation structures must comply with criteria set out in the financing arrangements. Where a counterparty to the Group's cross-currency basis swaps in the SPVs (which form its principal derivative exposures) fails to meet the required credit criteria, the counterparty is obliged under the terms of the SPV documentation to provide collateral to cover exposures.	↓ The Group's wholesale counterparty risk profile has reduced as an increasing proportion of the Group's interest rate portfolio is now centrally cleared and exposure to particular counterparties has reduced following the cancellation of cross currency swaps that were in SPVs which have been refinanced over the past twelve months.

Outsourcer default risk

Description	Mitigation	Change
The risk that, as a result of the Group outsourcing material activities to a third-party supplier, the Group is exposed to financial loss on the failure of that provider.	Prior to entering a new supplier relationship, and on an annual basis thereafter, financial checks against critical and high-risk suppliers must be completed. A financial check utilises Creditsafe reports. In addition, alert notifications have been set up in this system for all critical and important suppliers so that fluctuations are monitored throughout the life of a contract. If the score is deemed to be below appetite, or flags any risks, then further due diligence will be required. This action is taken with the support of the credit risk team who will oversee analysis of the report and provide guidance on the potential impact and whether further action is recommended. Further action could include an increase in monitoring activity and / or preparation to instigate any mitigation plans.	↑ The impact of the Covid-19 pandemic has resulted in an increased focus on the resilience of critical and important suppliers. However, the work that has been undertaken to strengthen our procurement controls has enabled development of processes linking subject matter experts in this field with the operational teams who are managing supplier relationships and mitigation approaches.

Model Risk

Assumptions and Model Operation Risk

Description	Mitigation	Change
The risk that the Group may make incorrect decisions based on the 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. Model Risk has two distinct components: The risk of an error in assumptions made anywhere in the model lifecycle, covering scope, data sourcing, development, testing, validation, implementation and maintenance, which results in incorrect decisioning The risk a model which has been scoped, developed, implemented and executed as expected may produce incorrect reporting if its use is not controlled or it is not operated in a safe, reliable and controlled environment.	In order to further enhance its existing robust credit management capabilities and to mitigate model risk, in May 2017 the Group set up the MRC. This is also the Group's IRB Designated Committee and is chaired by the CRO. MRC is supported by the Model Review Group ('MRG') and specialist risk consultants. MRG comprises technical modelling specialists and analysts and senior managers from Risk and Compliance and Finance to support the review, monitoring and validation of rating systems. The model governance structure is underpinned by the Model Governance Framework ('MGF') which aims to provide a structured and disciplined approach to the management of model risk. The Model Oversight Team is responsible for the development and maintenance of the MGF and oversight of all models recorded on the Group's Model Inventory including, but not limited to, IRB and IFRS 9 models. It is also responsible for providing a model validation function independent of the teams which develop, operate and monitor those models. This is led by the Head of Independent Model Validation ('IMV'), who is additionally support by external specialist consultants. The MRG and MRC meet on a regular basis and review and approve model developments, annual validations of models, model performance monitoring, waivers and MGF updates.	← → It is recognised that the increasing use of internally developed models will drive a commensurate risk to the Group. However, given the strength of the framework and oversight processes, model risk remains within appetite and the outlook remains stable.

Pension Obligation Risk

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

Reputational Risk

Description	Mitigation	Change
Maintenance of a strong reputation across all lines of business and operational activities is core to the Group's philosophy. Detrimental reputational impacts may result from crystallisation of other principal risks, but also through failure to safeguard the integrity of the brand or failing to meet external expectations in conducting business.	The reputational impacts of any changes to strategy, pricing or processes are explicitly considered in the decision-making process and are reviewed by the Director of External Relations. The Group has an experienced external relations function who manage all Group communications and ensure that the reputational profile of the Group remains protected at all times. All material risk events are reviewed for reputational impact and mitigating actions are initiated as appropriate.	← → The Group continues to manage its reputation effectively in all its dealings. Whilst it is mindful that the threat to reputation can emanate from many sources, the Group remains well-placed to respond quickly and efficiently to any reputational issue.

Strategic Risk

Business, Political and Acquisition Risks

Description	Mitigation	Change
The Group's strategy as a specialist lender is key to its operating model and business planning. However, there is a risk that changes to the business model or macroeconomic, geopolitical, regulatory, competitive or other factors may impact delivery of strategic objectives. The potential for a deterioration in the UK's economic conditions is harder to forecast given current uncertainties around Covid-19 and the end of the transition period governing the UK's relationship with the EU. While there have been no acquisitions in the current accounting period, any failure to manage effectively the transition and implementation risks resulting from previous material corporate acquisitions may impact adversely on the Group's financial performance and its reputation.	The Group closely monitors economic developments in the UK and overseas, with support from leading independent macro-economic and other advisors. This information supports the senior management's review of objectives each year and helps inform business plans for each of the Group's principal trading operations. As a lender and acquirer of credit portfolios, exposure to any material deterioration in economic conditions is inevitable. The Board's defined strategy is to limit this risk by operating as a specialist lender in carefully chosen markets where its employees have significant levels of experience and expertise. The Group also uses stress testing 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. In addition to considering the credit implications of such economic stress, the Board also considers the operational and liquidity implications of such scenarios, which would include the potential to increase liquidity coverage ratios, access contingent liquidity and further strengthen key risk and servicing functions as and when required. 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. Ongoing integration activity has been successful and with no new acquisitions undertaken, acquisition risk has consequently reduced.	↑ UK economic performance remains highly uncertain. The medium and longer- term impacts of Covid-19 are still to be determined. Whilst the Group has continued to remain resilient in the immediate crisis, the potential for future waves of the pandemic and associated lockdowns still present a significant risk. In addition, there is still a lack of clarity as to the basis of the UK's withdrawal from and future relationship with the EU. The continuing high levels of uncertainty have resulted in an increase in the overall risk assessment.

Climate Risk

Description	Mitigation	Change
The Group considers the impact of climate change either directly or indirectly through its third-party relationships. This includes the transitional risk to its strategy and profile through moving to a low carbon environment and any physical risks arising from changes to the natural environment.	The Group proactively manages physical risk and has specific underwriting policies aimed at mitigation, for example, risks associated with flooding and coastal erosion. The potential for transition risk is monitored within the different business lines, with external events prompting consideration of amendments to credit policy and underwriting criteria. The tightening of efficiency standards for domestic properties has the potential to impact the buy-to-let market and the energy performance of property stock. Credit Committee have considered the EPC data to provide an insight into the energy efficiency of properties on which the Group lends. Longer term strategic planning will also be informed by the ongoing analysis.	← → During the year the CFO has been assigned the Senior Management Function ('SMF') with responsibility for climate change and has taken the lead in developing the Group's understanding of the issue. The Board has adopted climate change as a new principal risk. A working group reporting to ERC has been established to consider the plan of work required to embed the management of climate related risks within the Group.

Conduct Risk

Customer Fair Outcomes

Description	Mitigation	Change
The Group provides a broad range of financial services products across a number of brands to consumers and small business customers. As a result, the Group is exposed to potential conduct risk should it fail to deliver fair outcomes for its customers. This could arise, for example, if certain products fail to meet the needs of customers or customer complaints are handled ineffectively. Systemic poor customer treatment may lead to regulatory censure, reputational damage and resulting reductions in the Group's profitability.	The Group has a formal Conduct Risk Management Framework, which includes a number of detailed policies addressing the fair treatment of customers. At the centre of these is the Conduct Risk Policy. This sets out the Group's overarching approach to the management of conduct risk as part of a framework within which business areas are required to develop systems and processes to identify, measure, manage, monitor and report risks in accordance with stated risk appetites. Underpinning this policy are additional policies and standards that include but are not limited to: • Complaint handling • Responsible lending • Sales and distribution practices • Forbearance • Vulnerable customer treatment The management of conduct risk within the Group is tailored to the specific product and customer type concerned. Business areas dealing with consumers have dedicated quality and control teams which validate process adherence and the delivery of fair treatment for customers. In certain areas, this will include a dedicated customer support team to manage customers deemed to be vulnerable. Additional controls and strategies can also include the following: • Recording inbound and outbound calls and reviewing a sample of calls and correspondence each month • Reviewing forbearance agreements in order to ensure these are not extended to the detriment of the customer's circumstances • Utilising system controls to restrict those employees that can action the accounts of customers identified as vulnerable • Monitoring the volume of customers disclosing sensitive information and the nature of their vulnerability • Monitoring accounts where customers have been requested to provide evidence to support their health issues to ensure such requests are appropriate • Actively encouraging customers in financial difficulty to obtain appropriate free independent advice from reputable, approved organisations. All employees are required to undertake conduct risk related training and, where appropriate, staff receive additional focussed training on a variety of customer centric topics which is subject to performance testing. The Group utilises a centralised complaint handling function for consumer and home finance loans to ensure complaints relating to these key areas are dealt with in a consistent and efficient manner. The CCC has a remit which extends to overseeing the fair treatment of customers. This Committee receives reports each month from business areas relating to customer treatment and complaint handling. The compliance function has a formal monitoring plan which is focussed on conduct risk and the fair treatment of customers, particularly those that are defined as vulnerable, or in financial difficulty. The plan is reviewed and approved on at least an annual basis by the RCC. Management actions to address any adverse compliance monitoring or Internal Audit reports are overseen at the CCC, ORC, ERC and RCC. The Group's approach to employee remuneration means that very few staff are included in financial incentive schemes. However, notwithstanding this, the Group recognises the potential for incentivisation to promote, unintentionally, inappropriate behaviours and therefore it maintains a robust policy and formal procedures relating to the design, approval and monitoring of any remuneration schemes. All schemes are required to be approved by the CCC before implementation and then reviewed by the CCC at least annually.	↑ Given the unprecedented challenges of Covid-19 and the need to respond quickly to changing circumstances, there is a heightened risk that customer outcomes have not been fully considered or unintended consequences may arise.

Operational Risk

Description	Mitigation	Change
Operational Risk arises across the Group through inadequate or failed internal processes, people and systems or from external events. By its nature operational risk is inherently diverse and all the Group's activities pose operational risk which needs to be managed through a strong control and oversight structure. The Group's exposure to operational risk is exacerbated through periods of transformation and stress.	The Group has enhanced its operational risk framework over the last 18 months to ensure that it is comprehensive and enables timely and accurate analysis of operational risk exposures and drives accountability and remedial actions where issues are identified. Management of operational risk is enabled through a comprehensive framework of policies which are designed to ensure that all key operational risks are managed consistently across the business. This includes risk areas such as change management, procurement, Data Protection, financial crime and people. The Group is committed to ensuring it remains resilient, particularly in respect of IT capability. Significant investment has been undertaken to ensure it is well-protected in the face of the evolution of cyber threats. The Group relies on third party providers for a number of key services including in the provision of its savings offering and in respect of critical IT services. The robust oversight of third parties is seen as critical to overall resilience. Continued investment in people has been undertaken to ensure that risk exposures are minimised. This includes management of key dependency risk through effective succession planning, recruitment, development and retention strategies.	↑ Inevitably with the Covid-19 pandemic there have been increased challenges in managing the business operations. The impacts of new working arrangements, rapid redeployment of people to support additional processes such as payment holidays and the need to manage the IT challenges arising as a consequence, increase the risk that process failings may occur. Whilst the Group has successfully navigated the transition to operating effectively in the pandemic environment, given the ongoing uncertainties and economic outlook, the potential for operational risk issues remains heightened.

Further information

The Group Accounts includes a Risk Management Report, in Section B8. This report sets out:

- the activities of the Risk and Compliance Committee in the year
- a more detailed description of the risk management framework and the structure, organisation and activities of the Group's risk function
- a summary of the Group's risks, together with the mitigants in place to control these risks and the movement in the inherent assessment of the risks in the year

4. Capital resources

This section sets out
• An overview of the Group's capital position
• A description of the nature and composition of the Group's regulatory capital
• Analysis of the adequacy of capital compared to regulatory requirements and the calculation of Total Risk Exposure for regulatory purposes
• The calculation of the Group's leverage ratio
• The regulatory capital buffers applying to the Group

The Group is subject to supervision by the PRA on a consolidated basis, as a group containing an authorised bank. As part of this supervision the regulator will issue an individual capital requirement setting an amount of regulatory capital, which the Group is required to hold relative to its total risk exposure in order to safeguard depositors from loss in the event of severe losses being incurred by the Group. This is defined by the international Basel III rules, set by the Basel Committee on Banking Supervision ('BCBS') and currently implemented in UK law by EU Regulation 575/2013, referred to as the Capital Requirements Regulation ('CRR'). Separate requirements apply to the Group, on a consolidated basis, and to the Bank.

The Group's regulatory capital is monitored by the Board, its Risk and Compliance Committee and the Asset and Liability Committee, who ensure that appropriate action is taken to ensure compliance with the regulator's requirements. The future regulatory capital requirement is also considered as part of the Group's forecasting and strategic planning process.

Both the Group's and the Bank's capital risk appetites are linked to their wider risk appetite statements and ultimately their strategy.

The Group's overriding objective in managing its capital is to generate a strong return for shareholders while operating within the risk appetite set by the Board which requires it to:

- Maintain capital quantity and quality to cover current and future risks within the Group
- Maintain sufficient capital to be able to survive a range of severe but plausible stressed scenarios
- Utilise capital in order to generate a strong return for shareholders

The Group's response to the Covid-19 situation has been planned and executed with the protection of its capital base and its long-term viability as key strategic priorities.

The Group's approach to defining capital risk appetite takes into account its prudent approach to operations and strong control environment. The risk appetite is described in both quantitative and qualitative terms:

- Quantitatively, by describing the overall risk limits numerically. These limits cover the quantity and quality of capital to be held
- Qualitatively, by outlining core principles in managing or mitigating risk and ensuring that the Group and the Bank have the necessary capabilities to prudently manage capital risks, and provide management with sufficient information to effectively oversee operations and risk levels

It should be noted that the regulatory capital disclosures in this section relate only to the consolidated position for the Group. Individual entities or groups of entities within the Group are also subject to supervision on a standalone basis. All such entities complied with the requirements to which they were subject during the year.

Capital resources

The Group's tier 1 capital arises from the equity represented by its ordinary shares, which are listed on the London Stock Exchange. These shares all rank pari passu and carry no special features.

The tier 2 capital instruments are fixed term corporate bonds, listed on the London Stock Exchange. They were issued in 2016 and mature in 2026. Further details of these bonds are given in note 32 to the Group Accounts.

The detailed information on these instruments required by Article 437 of Part 8 as applied by EU Commission Implementing Regulation 1423/2013, is set out in Appendix A.

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 allow for a 95% add back to CET1 capital and Risk Weighted Assets ('RWA') in the financial year ended 30 September 2019, reducing to 85%, 70%, 50% and 25% for the financial years ending in 2020 to 2023, with full recognition of the impact on CET1 capital in the 2024 financial year.

As part of the regulatory response to Covid-19, Article 473a was revised to extend the transitional arrangements to Stage 1 and Stage 2 impairment provisions created in the financial year ended 30 September 2020 and the financial year ending 30 September 2021, while maintaining the transitional arrangements for impairment provisions created before the current period. In order to increase institutions' lending capacity in the short term, the EU has determined that these additional provisions should be to be phased into capital over the financial years ending 30 September 2022 to 30 September 2024, rather than recognising the reduction in capital immediately.

These responses also allow, under paragraph 7a of the Article, the impact of transitional adjustments to be weighted at 100% in calculating RWA. The Group has taken advantage of this derogation and hence the IFRS 9 adjustment to RWA is equal to the adjustment to capital at 30 September 2020.

Where these reliefs are taken, firms are also required to disclose their capital positions calculated as if the relief were not available (the 'fully loaded' basis).

The tables below demonstrate that at 30 September 2020 the Group's regulatory capital of £1,141.2m (2019: £1,072.0m) was comfortably in excess of the amounts required by the regulator, including £749.6m in respect of Pillar 1 and Pillar 2a capital, which is comprised of fixed and variable elements. The CRR also requires firms to hold additional capital buffers, the CRD IV buffers, described further below. Throughout the period from authorisation to that date, the Group's regulatory capital also complied with these requirements.

The total regulatory capital at 30 September 2020 on the fully loaded basis (excluding the impact of IFRS 9 relief) of £1,098.9m was in excess of the Pillar 1 and 2a requirement of £745.3m on the same basis.

The Group's regulatory capital differs from its equity as certain adjustments are required by the regulator. A reconciliation of the Group's equity to its regulatory capital determined in accordance with CRD IV at 30 September 2020 is set out below.

		Regulatory basis		Fully loaded basis	
		2020	2019	**2020**	2019
		£m	£m	**£m**	£m
Total equity		**1,156.0**	1,108.4	**1,156.0**	1,108.4
Deductions					
Proposed final dividend		**(36.4)**	(35.8)	**(36.4)**	(35.8)
IFRS 9 transitional relief	*	**42.3**	21.2	**-**	-
Intangible assets		**(170.1)**	(171.1)	**(170.1)**	(171.1)
Prudent valuation adjustments	§	**(0.6)**	(0.7)	**(0.6)**	(0.7)
Common Equity Tier 1 ('CET1') capital		**991.2**	922.0	**948.9**	900.8
Other tier 1 capital		**-**	-	**-**	-
Total Tier 1 capital		**991.2**	922.0	**948.9**	900.8
Corporate bond		**150.0**	150.0	**150.0**	150.0
Total Tier 2 capital		**150.0**	150.0	**150.0**	150.0
Total regulatory capital ('TRC')		**1,141.2**	1,072.0	**1,098.9**	1,050.8

Source: Group Accounts

*Firms are permitted to phase in the impact of IFRS 9 transition over a five-year period. See above on the Group's adoption of regulatory reliefs in response to Covid-19.

§ For capital purposes, assets and liabilities held at fair value, such as the Group's derivatives, are required to be valued on a more conservative basis than the market value basis set out in IFRS 13. This difference is represented by the prudent valuation adjustment above, calculated using the 'Simplified Approach' set out in the CRR.

The movements in the Group's capital resources in the year, on the regulatory basis, can be analysed as follows:

	2020			2019		
	CET 1	**Tier 2**	**Total**	CET 1	Tier 2	Total
	£m	**£m**	**£m**	£m	£m	£m
Opening capital						
As originally reported	**922.0**	**150.0**	**1,072.0**	890.8	154.9	1,045.7
New accounting standards*	**-**	**-**	**-**	(22.4)	(4.9)	(27.3)
IFRS 9 transitional relief	**-**	**-**	**-**	21.2	-	21.2
Prudent valuation adjustments	**-**	**-**	**-**	(0.9)	-	(0.9)
As restated	**922.0**	**150.0**	**1,072.0**	888.7	150.0	1,038.7
Trading transactions						
Profit after tax	**91.3**	**-**	**91.3**	127.4	-	127.4
Other comprehensive income†	**(5.8)**	**-**	**(5.8)**	(14.4)	-	(14.4)
Charge for share based payment	**2.7**	**-**	**2.7**	5.9	-	5.9
Tax on share based payment	**(0.3)**	**-**	**(0.3)**	0.4	-	0.4
Intangible assets arising on acquisition	**-**	**-**	**-**	(2.2)	-	(2.2)
Purchase of intangible assets	**(1.0)**	**-**	**(1.0)**	(2.0)	-	(2.0)
Amortisation of intangible assets	**2.0**	**-**	**2.0**	2.4	-	2.4
Movement in IFRS 9 transitional relief	**21.1**	**-**	**21.1**	-	-	-
Capital transactions						
Proposed dividend at year end	**(36.5)**	**-**	**(36.5)**	(35.8)	-	(35.8)
Interim dividend paid in year	**-**	**-**	**-**	(18.2)	-	(18.2)
Share buy-backs	**-**	**-**	**-**	(26.7)	-	(26.7)
Shares issued	**0.6**	**-**	**0.6**	4.1	-	4.1
Shares purchased by ESOP	**(5.2)**	**-**	**(5.2)**	(7.6)	-	(7.6)
Share awards exercised	**0.2**	**-**	**0.2**	(0.2)	-	(0.2)
Movement in prudent valuation adjustment	**0.1**	**-**	**0.1**	0.2	-	0.2
Closing capital	**991.2**	**150.0**	**1,141.2**	922.0	150.0	1,072.0

* Impact of the introduction of IFRS 9 and IFRS 15, net of tax. A full discussion of this restatement is given in note 62 of the 2019 Group Accounts.

† The amount shown above for other comprehensive income principally represents actuarial (losses) / gains on the Group's defined benefit pension plan.

Total risk exposure ('TRE')

The total risk exposure calculated under the CRD IV framework against which this capital is held and the proportion of these assets it represents are calculated as shown below. The minimum capital requirement in respect of each class, based on 8% of risk exposure, is also set out below.

	Risk exposure		Capital requirement	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Credit risk				
Balance sheet assets	**6,171.7**	5,997.2	**493.7**	479.8
Off balance sheet	**104.1**	85.5	**8.3**	6.8
IFRS 9 transitional relief	**42.3**	10.5	**3.4**	0.9
Total credit risk	**6,318.1**	6,093.2	**505.4**	487.5
Operational risk	**544.3**	516.6	**43.5**	41.3
Market risk	**-**	-	**-**	-
Other	**85.7**	114.0	**6.9**	9.1
TRE	**6,948.1**	6,723.8	**555.8**	537.9
Solvency ratios	**%**	%		
CET1	**14.3**	13.7		
Total regulatory capital	**16.4**	15.9		

Source: Group Accounts

The total risk exposure, minimum capital requirements and solvency ratios calculated on a fully loaded basis are set out below.

	Risk exposure		Capital requirement	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
TRE	**6,948.1**	6,723.8	**555.8**	537.9
IFRS 9 transitional relief	**(42.3)**	(10.5)	**(3.4)**	(0.9)
Fully loaded TRE	**6,905.8**	6,713.3	**552.4**	537.0
Fully loaded solvency ratios	**%**	%		
CET1	**13.7**	13.4		
Total regulatory capital	**15.9**	15.7		

TRE for Credit Risk

The Group calculates CRD IV risk weightings for credit risk exposures using the Standardised Approach.

The table below shows the causes of movements in risk weighted assets ('RWA'), before IFRS 9 relief, in the year at the Group level, analysed by those movements caused by changes in the average risk weightings applied to portfolios ('Portfolio Quality') and changes in the unweighted value of the portfolios ('Portfolio Size').

	2019 RWA	Portfolio Quality	Portfolio Size	**2020 RWA**
	£m	£m	£m	**£m**
First mortgages	3,670.7	(23.8)	165.3	**3,812.2**
Second charge mortgages	188.9	(13.7)	(7.8)	**167.4**
Development finance	791.1	-	177.7	**968.8**
Exposures secured on real estate	4,650.7	(37.5)	335.2	**4,948.4**
Retail exposures	484.2	(28.1)	(26.6)	**429.5**
Asset finance exposures	398.0	-	(40.7)	**357.3**
Exposure on loans to customers	5,532.9	(65.6)	267.9	**5,735.2**
Institutions	404.3	-	(64.1)	**340.2**
Other assets	145.5	-	54.9	**200.4**
	6,082.7	(65.6)	258.7	**6,275.8**

Credit RWAs before IFRS 9 relief have increased by approximately 3.7% since 30 September 2019. The principal cause of this increase has been the impact of new lending in the buy-to-let mortgage business and especially in the development finance operation, where the assets carry a particularly high risk weighting. This was offset, to some degree, by the impact of Covid-19 which increased provision in the year and moved some assets to higher weightings.

Further details of the Group's exposure to credit risk in respect of loans to customers are given in Section 5, while credit risk in respect of institutional and sovereign exposures is discussed in Section 7.

TRE for Operational Risk

The Group calculates CRD IV risk weightings for operational risk using the Basic Indicator Approach.

Changes in operational risk requirements in the year reflect income growth within the regulatory prescribed income streams, as these measures form the basis of the Basic Indicator Approach.

The Group has a very low operational risk appetite, highlighted by its lack of historic operational risk losses. In order to assess whether a Pillar 2a add-on is required for operational risk, the Group has reviewed historic operational losses, as well as performing scenario analysis on the Group's major operational risks.

Other TRE

Other TRE relates to credit valuation adjustments in respect of derivative exposures. No TRE is required in respect of market risk.

Leverage ratios

Risk of excessive leverage is the risk that arises through maintaining an inappropriate leverage ratio or mismatches between assets and obligations. This risk is not considered significant for the reasons considered below.

The current structure of the balance sheet returns a high leverage ratio. The Group's leverage ratio has remained well in excess of the minimum 3% set out in the CRR 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.

The Group monitors its leverage exposure on the basis set out by the PRA ('UK basis'). Firms are required to report in their Pillar III disclosures on the basis prescribed by the EBA, which differs in the treatment of central bank balances. Accordingly, both measures are presented in this document.

The table below shows the calculation of the leverage ratios at the year end, based on the consolidated balance sheet assets, adjusted for amounts already provided in the Group Accounts and the post-offer pipelines of loan assets at 30 September 2020.

	UK Basis		EBA Basis	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Total balance sheet assets	**15,505.5**	14,395.5	**15,505.5**	14,395.5
Less: Derivative assets	**(463.3)**	(592.4)	**(463.3)**	(592.4)
Less: Central bank deposits	**(1,637.1)**	(816.4)	**-**	-
Less: CRDs	**(15.1)**	(11.4)	**-**	-
Less: Accrued interest on sovereign exposures	**-**	(0.2)	**-**	-
On balance sheet items	**13,390.0**	12,975.1	**15,042.2**	13,803.1
Less: Intangible assets	**(170.1)**	(171.1)	**(170.1)**	(171.1)
Total on balance sheet exposures	**13,219.9**	12,804.0	**14,872.1**	13,632.0
Derivative assets	**463.3**	592.4	**463.3**	592.4
Potential future exposure on derivatives	**92.3**	120.0	**92.3**	120.0
Total derivative exposures	**555.6**	712.4	**555.6**	712.4
Post-offer pipeline at gross notional amount	**949.1**	903.4	**949.1**	903.4
Adjustment to convert to credit equivalent amounts	**(773.8)**	(739.2)	**(773.8)**	(739.2)
Off balance sheet items	**175.3**	164.2	**175.3**	164.2
Total leverage exposure before IFRS 9 relief	**13,950.8**	13,680.6	**15,603.0**	14,508.6
IFRS 9 relief	**42.3**	25.8	**42.3**	25.8
Total leverage exposure	**13,993.1**	13,706.4	**15,645.3**	14,534.4
Tier 1 capital	**991.2**	922.0	**991.2**	922.0
Total leverage exposure	**13,993.1**	13,706.4	**15,645.3**	14,534.4
Leverage ratio	**7.1%**	6.7%	**6.3%**	6.3%

Source: Group Accounts (excluding EBA basis)

As part of the EU 'Quick Fix' amendments to the CRR, Article 500b introduced a relief whereby a regulator could authorise firms to temporarily exclude certain exposures to central banks from the calculation of total exposure for leverage purposes. As the PRA basis of calculation already excludes such exposures on a permanent basis, this was not invoked in the UK and the EBA measure shown above is calculated without its benefit.

The increase in leverage ratio on the regulatory basis is driven by the prudent capital policy followed in the year, in response to the Covid-19 situation.

The Group's trading performance, including the impact of the deferral of senior management bonuses and the reduced dividend increased CET1, particularly on the regulatory basis, where much of the loss provision generated by Covid-19 does not need to be recognised. At the same time, loan asset growth was slowed by the impact of the pandemic. Both of these elements had a positive (upward) impact on the leverage ratio on the UK basis. On the EBA basis this was offset by the impact of increased deposits held at the Bank of England, also in response to the pandemic.

The disclosure of the EBA leverage ratio calculation in accordance with the template published in EU Commission Implementing Regulation 2016/200 is shown in Appendix B.

On a fully loaded basis the leverage ratios were as set out below.

	UK Basis		EBA Basis	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Fully loaded Tier 1 capital	**948.9**	900.8	**948.9**	900.8
Total leverage exposure before IFRS 9 relief	**13,950.9**	13,680.6	**15,603.0**	14,508.6
Fully loaded leverage ratio	**6.8%**	6.6%	**6.1%**	6.2%

Capital buffers

CRD IV establishes a number of capital buffers to be met with CET1 capital, in addition to the Group's funds requirement set through Pillar 1 and Pillar 2 (together referred to as the 'CRD IV Buffers'). The buffers which apply to the Group at 30 September 2020 and which are expected to apply in the near term are:

- A Capital Conservation Buffer ('CCoB') which has been 2.50% since 1 January 2019. This is currently expected to be the long-term level for this buffer
- A Counter Cyclical Buffer ('CCyB'), set separately for each jurisdiction in which a firm operates
- The PRA buffer, set for firms on an individual basis. It should be noted that the PRA buffer is set as a percentage of TRE, rather than an absolute amount, so will vary with the balance sheet

Additional buffers provided for by CRD IV do not apply to the Group.

While an institution's CCyB will be a weighted average of those set by the regulators in the jurisdictions in which it operates, forming an 'Institution Specific CCyB Rate', as all of the Group's risk exposure is within the UK, its rate will be equal to that set for the UK.

The CCyB rate for the UK is controlled by the Financial Policy Committee of the Bank of England ('FPC') and is currently 0.0% of risk weighted assets (2019: 1.0%). The reduction in the CCyB in the year was a response to the Covid-19 pandemic and the long-term rate in a standard risk environment is expected to be 2.0%. Therefore, the Group's Institution Specific CCyB Requirement as at 30 September 2020 was £nil (2019: £67.2m). The Group's approach to reporting CCyB is discussed in Appendix D.

The PRA have indicated that their intention is that their buffer will be used to address governance and risk management issues which have not been adequately addressed by firms. The level of any PRA buffer may not be disclosed.

CRD IV also sets minimum requirements for the quality of capital held, ie its distribution between Tier 1, Additional Tier 1 and Tier 2 instruments. The Total Capital Requirement for the Group (Pillar 1 and Pillar 2A) must be met with at least 56% CET1 capital, and can include no more than 44% Additional Tier 1 ('AT1') capital and no more than 25% Tier 2 capital. Other capital requirements, including the CRD IV buffers, must be satisfied with CET1 capital. At 30 September 2020 the Group's regulatory capital was mostly CET1 equity. It has not yet issued any AT1 instruments.

The Group has reviewed the requirements set out within the CRR, including the impact of the changes in buffers. The capital position of the Group over the planning horizon demonstrates a significant surplus that can accommodate the requirements of the capital conservation and countercyclical capital buffers.

The Group has concluded that it will maintain a capital surplus over and above the CRR capital requirements, including relevant buffers, through the planning horizon.

5. Credit risk

This section sets out
• An overview of the Group's overall exposure to credit risk
• How the Group's risk exposure for credit risk (its risk weighted assets) is derived
• The most significant metrics used by the Group to assess credit risk in its principal asset classes

The Group's business objectives rely on maintaining a high-quality customer base and place strong emphasis on good credit management, both at the time of acquiring or underwriting a new loan, where strict lending criteria are applied, and throughout the loan's life.

Primary responsibility for credit risk management across the Group lies with the Credit Committee. The Credit Committee is made up of senior employees, drawn from financial and risk functions independent of the underwriting process. It is chaired by the Credit Risk Director. Its key responsibilities include setting and reviewing credit policy, controlling applicant quality, tracking account performance against targets, agreeing product criteria and lending guidelines and monitoring performance and trends.

The assets of the Group which are subject to credit risk are set out below:

	2020	2019
	£m	£m
Loans to customers	**12,631.4**	12,186.1
Trade receivables	**3.2**	3.6
Cash	**1,925.0**	1,225.4
Credit Support Annex ('CSA') assets	**103.5**	72.2
CRDs	**15.1**	11.4
Accrued interest income	**0.1**	0.4
Derivative financial assets	**463.3**	592.4
Maximum exposure to credit risk	**15,141.6**	14,091.5

Source: Group Accounts

While this maximum exposure represents the potential loss which might have to be accounted for by the Group, the terms on which a significant proportion of the Group's loan assets are funded limit the amount of principal repayments on the Group's securitised and warehouse borrowings in cases of capital losses on assets, considerably reducing the effective shareholder value at risk.

The credit profiles of the loans to customers and trade debtor balances are discussed in more detail later in this section. The credit characteristics of the cash, derivatives and related balances are discussed in Section 7.

The Group's risk weighted assets, used in determining its Pillar 1 capital requirement, can be analysed by category as shown below.

		Exposure	Average risk weighting	Risk weighted exposure	Minimum capital required
		£m	%	£m	£m
30 September 2020					
Government and central banks	(a)	**1,652.2**	**0.0%**	**-**	**-**
Credit institutions	(f)	**854.7**	**39.8%**	**340.2**	**27.2**
Total liquidity exposures		**2,506.9**	**13.6%**	**340.2**	**27.2**
Local authorities	(b)	**21.0**	**20.0%**	**4.2**	**0.3**
Corporate and similar exposures	(g)	**240.4**	**91.6%**	**220.1**	**17.6**
Retail and SME lending	(h)	**786.2**	**69.3%**	**544.8**	**43.6**
Residential lending	(i)	**10,835.9**	**35.1%**	**3,804.5**	**304.4**
Non-performing	(j)	**131.7**	**103.9%**	**136.8**	**10.9**
Specialist lending	(k)	**609.0**	**150.0%**	**913.5**	**73.1**
Commercial property	(l)	**7.2**	**100.0%**	**7.2**	**0.6**
Loans and advances to customers		**12,631.4**	**44.6%**	**5,631.1**	**450.5**
Fixed and other assets	(q)	**197.1**	**101.7%**	**200.4**	**16.0**
Total on balance sheet exposures		**15,335.4**	**40.2%**	**6,171.7**	**493.7**
Off balance sheet exposures - pipeline		**126.2**	**82.5%**	**104.1**	**8.3**
Total credit risk exposure		**15,461.6**	**40.6%**	**6,275.8**	**502.0**
30 September 2019					
Government and central banks	(a)	828.0	0.0%	-	-
Credit institutions	(f)	1,073.5	37.7%	404.3	32.3
Total liquidity exposures		1,901.5	21.3%	404.3	32.3
Local authorities	(b)	23.5	20.0%	4.7	0.4
Corporate and similar exposures	(g)	252.2	96.4%	243.2	19.5
Retail and SME lending	(h)	865.9	71.9%	622.9	49.8
Residential lending	(i)	10,395.3	35.3%	3,666.3	293.3
Non-performing	(j)	139.0	105.6%	146.8	11.7
Specialist lending	(k)	506.5	150.0%	759.8	60.8
Commercial property	(l)	3.7	100.0%	3.7	0.3
Loans and advances to customers		12,186.1	44.7%	5,447.4	435.8
Fixed and other assets	(q)	136.8	106.4%	145.5	11.7
Total on balance sheet exposures		14,224.4	42.2%	5,997.2	479.8
Off balance sheet exposures - pipeline		903.4	9.5%	85.5	6.8
Total credit risk exposure		15,127.8	40.2%	6,082.7	486.6

‘Specialist lending’ includes assets of the Group’s development finance business.

‘Other assets’ includes property, plant and equipment, fair value hedging adjustments, prepayments and other assets not exposed to credit risk. Risk weighted exposures on derivatives include allowances for potential future exposure.

The exposures shown above are assigned to the exposure classes set out in Article 112 of the CRR as shown below:

a) Exposures to central governments or central banks

b) Exposure to regional governments and local authorities

f) Exposure to institutions

g) Exposure to corporates

h) Retail exposures

i) Exposures secured by mortgages on immovable property

j) Exposures in default

k) Exposures associated with particularly high risk

l) Exposure to commercial property

q) Other items

There are no equity exposures.

These calculations use the SA for credit risk for all asset classes. A risk weighting of 8% is applied to risk weighted asset values calculated in accordance with Article 92 of the CRR to determine the minimum Pillar I requirement for credit risk.

The risk weightings used in the SA for exposures to central governments, central banks and local authorities within the EU are set in the CRR.

For institutional exposures, where the SA requires the use of external ratings to determine appropriate risk weightings, the Group uses ratings published by Fitch, Standard and Poor’s and Moody’s assigning the exposure to the credit quality step indicated by the majority. This is the only use of External Credit Assessment Institutions (‘ECAI’) in the Group’s application of the SA.

Further information on the credit risk relating to the Group’s sovereign and institutional exposures is given in Section 7.

The first stage of the Group’s application for the accreditation of its IRB approach to credit risk for capital adequacy purposes was submitted to the PRA in March 2020. This phase of the application covers the Group’s buy-to-let mortgage assets and considerable work has taken place to reach this stage. Models have been built and tested, governance frameworks enhanced, and IRB outputs are now being regularly considered internally. Work on this project has continued to progress throughout the second half of the year.

A reconciliation of the on-balance sheet exposure shown above to the audited amounts in the Group Accounts is shown below.

	2020	2019
	£m	£m
Total balance sheet assets	**15,505.5**	14,395.5
Less amounts deducted in regulatory capital		
Intangible assets	**(170.1)**	(171.1)
Total balance sheet exposure	**15,335.4**	14,224.4

Source: Group Accounts

Individual balance sheet classes of credit risk bearing instruments are discussed further below.

Loans to customers

The Group's credit risk is primarily attributable to its loans to customers. There are no significant concentrations of credit risk to individual counterparties due to the large number of customers included in the portfolios. Note 56 to the Group Accounts includes information on exposures greater than £10.0m.

All of the Group's loan assets are situated in the UK and therefore each portfolio is considered to comprise a single geographical exposure. The Group's retail lending portfolios, including buy-to-let lending, each comprise a single counterparty type. Hence no analysis of these portfolios, or elements within them, is provided.

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.

No collectively assessed impairment provisions are made under IFRS 9.

An analysis of the movements in impairment provisions is given in note 19 to the Group Accounts.

The Group's loan assets at 30 September 2020 are analysed as follows:

	Gross loan assets	Expected loss	Net loan assets	
	£m	£m	£m	%
30 September 2020				
Buy-to-let mortgages	**10,631.3**	**(47.5)**	**10,583.8**	**83.8%**
Owner-occupied mortgages	**53.2**	**(0.1)**	**53.1**	**0.4%**
Total first charge residential mortgages	**10,684.5**	**(47.6)**	**10,636.9**	**84.2%**
Second charge mortgage loans	**358.4**	**(3.9)**	**354.5**	**2.8%**
Loans secured on residential property	**11,042.9**	**(51.5)**	**10,991.4**	**87.0%**
Development finance	**616.7**	**(7.7)**	**609.0**	**4.8%**
Loans secured on property	**11,659.6**	**(59.2)**	**11,600.4**	**91.8%**
Asset finance loans	**464.4**	**(12.4)**	**452.0**	**3.6%**
Motor finance loans	**276.8**	**(4.4)**	**272.4**	**2.2%**
Aircraft mortgages	**26.7**	**(0.7)**	**26.0**	**0.2%**
Invoice finance	**14.3**	**(0.8)**	**13.5**	**0.7%**
Structured lending	**95.9**	**(1.0)**	**94.9**	**0.1%**
Professions finance	**23.3**	**(1.0)**	**22.3**	**0.2%**
CBILS and BBLS	**26.0**	**(0.8)**	**25.2**	**0.2%**
Other unsecured commercial loans	**15.0**	**-**	**15.0**	**0.1%**
Unsecured consumer loans	**111.2**	**(1.5)**	**109.7**	**0.9%**
Total loans to customers	**12,713.2**	**81.8**	**12,631.4**	**100.0%**

	Gross loan assets	Expected loss	Net loan assets	
	£m	£m	£m	%
30 September 2019				
Buy-to-let mortgages	10,128.4	(26.5)	10,101.9	82.9%
Owner-occupied mortgages	70.7	(0.1)	70.6	0.6%
Total first charge residential mortgages	10,199.1	(26.6)	10,172.5	83.5%
Second charge mortgage loans	392.0	(2.8)	389.2	3.2%
Loans secured on residential property	10,591.1	(29.4)	10,561.7	86.7%
Development finance	508.1	(1.6)	506.5	4.1%
Loans secured on property	11,099.2	(31.0)	11,068.2	90.8%
Asset finance loans	475.9	(3.0)	472.9	3.9%
Motor finance loans	322.5	(3.6)	318.9	2.6%
Aircraft mortgages	19.4	(0.1)	19.3	0.2%
Invoice finance	19.5	(1.0)	18.5	0.1%
Structured lending	88.1	-	88.1	0.7%
Professions finance	47.3	(1.1)	46.2	0.4%
Other commercial loans	19.6	(0.3)	19.3	0.2%
Unsecured consumer loans	136.5	(1.8)	134.7	1.1%
Total loans to customers	12,228.0	(41.9)	12,186.1	100.0%

Source: Group Accounts

Other consumer loans include unsecured loans either advanced by Group companies or acquired from their originators at a discount. Professions finance loans are generally short term unsecured loans made to lawyers and accountants for working capital purposes.

Development finance loans are secured by the development property and various charges over the build.

Structured lending and invoice finance balances are effectively secured over the assets of the customer, with security enhanced by maintaining balances at a level less than the total amount of the security (the advance percentage).

The Group does not utilise any form of credit risk mitigation in respect of loan assets beyond the security provided by its customers under their loan agreements.

More details on the credit profile of the following asset classes are given below:

- Loans secured on residential property
- Development finance loans
- Asset and motor finance loans
- Secured lending accounts
- CBILS and BBLS

Additional details on all asset classes are given in note 57 to the Group Accounts.

Average quarterly exposure against the Group's loan assets is presented below.

For the quarter ended	September 2020	June 2020	March 2020	December 2019
	£m	£m	£m	£m
Buy-to-let mortgages	**10,557.6**	10,480.2	10,357.6	10,194.0
Owner-occupied mortgages	**54.9**	58.8	64.6	69.5
Total first charge residential mortgages	**10,612.5**	10,539.0	10,422.2	10,263.5
Second charge mortgage loans	**360.6**	371.9	380.5	386.5
Loans secured on residential property	**10,973.1**	10,910.9	10,802.7	10,650.0
Development finance	**592.8**	539.4	509.6	511.7
Loans secured on property	**11,565.9**	11,450.3	11,312.3	11,161.7
Motor finance loans	**281.0**	302.2	316.9	318.9
Other consumer loans	**112.3**	117.7	123.9	131.1
CBILS and BBLS	**16.3**	3.7	-	-
Asset finance loans including invoice finance and discounting balances	**543.6**	582.5	599.8	584.6
Structured lending	**97.5**	97.6	89.9	86.4
Average exposure	**12,616.6**	12,554.0	12,442.8	12,282.7

For the quarter ended	September 2019	June 2019	March 2019	December 2018
	£m	£m	£m	£m
Buy-to-let mortgages	10,036.5	10,259.5	10,481.0	10,320.7
Owner-occupied mortgages	70.2	73.3	81.6	83.7
Total first charge residential mortgages	10,106.7	10,332.8	10,562.6	10,404.4
Second charge mortgage loans	392.2	400.0	405.9	410.6
Loans secured on residential property	10,498.9	10,732.8	10,968.5	10,815.0
Development finance	484.7	444.5	404.6	368.1
Loans secured on property	10,983.6	11,177.3	11,373.1	11,183.1
Motor finance loans	318.0	316.5	321.2	327.8
Other consumer loans	143.8	155.8	162.1	169.7
Asset finance loans including invoice finance and discounting balances	564.7	546.2	521.3	493.3
Structured lending	80.1	64.1	49.0	40.3
Average exposure	12,090.2	12,259.9	12,426.7	12,214.2

All of the loans shown allow the customer to repay the balance early and this facility is often used, especially for mortgage loans. It is therefore considered that an analysis of these balances by contractual maturity would not provide useful information. An analysis of the contractual due dates for motor finance and asset finance loans is given in note 18 to the Group Accounts.

The Group's underwriting philosophy is based on a combination of sophisticated individual credit assessment and the automated efficiencies of a scored decision making process. Information on each applicant is combined with data taken from a credit reference bureau to provide a complete credit picture of the applicant and the borrowing requested. Key information is validated through a combination of documentation and statistical data which collectively provide evidence of the applicant's ability and willingness to pay the amount contracted under the loan agreement. In assessing credit risk, even where the Group would have security on a proposed loan, an applicant's ability and propensity to repay the loan remain the principal factors in the decision to lend.

In considering whether to acquire pools of loan assets, the Group will undertake a due diligence exercise on the underlying loan accounts. Such assets are generally not fully performing and are offered at a discount to their current balance. The Group's procedures may include inspection of original loan documents, verification of security and the examination of the credit status of borrowers. Current and historic cash flow data will also be examined. The objective of the exercise is to establish, to a level of confidence similar to that provided by the underwriting process, that the assets will generate sufficient cash flows to recover the Group's investment and generate an appropriate return without exposing the Group to material operational or conduct risks.

Credit characteristics by portfolio

Loans secured on residential property

First mortgages and second charge mortgage loans are secured by charges over residential properties in England and Wales, or similar Scottish or Northern Irish securities.

An analysis of the indexed loan to value ratio ('LTV') for those loan accounts secured on residential property by value at 30 September 2020 is set out below. LTVs for second charge mortgages are calculated allowing for the interest of the first charge holder, based on the most recent first charge amount held by the Group, while for acquired accounts the effect of any discount on purchase is allowed for.

	First Mortgages		Second charge mortgages	
	2020	2019	**2020**	2019
	%	%	**%**	%
Loan to value ratio				
Less than 70%	**59.9**	54.3	**74.5**	66.5
70% to 80%	**35.9**	36.2	**16.7**	18.5
80% to 90%	**2.3**	7.2	**5.2**	8.9
90% to 100%	**0.4**	0.6	**1.2**	2.7
Over 100%	**1.5**	1.7	**2.4**	3.4
	100.0	100.0	**100.0**	100.0
Average loan to value ratio	**65.7**	67.3	**62.2**	65.7
Of which:				
Buy-to-let	**65.8**	67.4		
Owner-occupied	**49.2**	53.2		

Source: Group Accounts

The regionally indexed LTVs shown above are affected by changes in house prices, with the Nationwide house price index, for the UK as a whole, registering an annual increase of 5.0% in the year ended 30 September 2020 (2019: 0.2%). The increase in average prices, however, is part of a more volatile picture, which has been particularly marked at the local and regional level. The Group maintains a specialist team of in-house surveyors to maximise its understanding of particular markets, both from a valuation and lettings standpoint.

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 arrears management process, typically conducting drive-by or full valuations as accounts move through arrears stages. LTV amounts shown above are based on the most recent valuation of each property on the Group's records.

In determining appropriate allowances for impairment, the most recent valuation of the security will be used, with a discount reflecting the potential impact of a forced sale.

An analysis of those loan accounts secured on residential property, classified by property location, by value at 30 September 2020 is set out below. For acquired accounts the effect of any discount on purchase is allowed for.

	First Charge		Second Charge	
	2020	2019	**2020**	2019
	%	%	**%**	%
Region				
East Anglia	**3.2**	3.2	**3.3**	3.3
East Midlands	**5.4**	5.3	**6.1**	6.3
Greater London	**18.7**	18.9	**8.2**	7.8
North	**3.2**	3.3	**3.9**	4.2
North West	**10.4**	10.1	**7.4**	8.0
South East	**31.6**	31.9	**39.5**	37.7
South West	**8.7**	8.9	**8.0**	7.9
West Midlands	**5.4**	5.1	**7.3**	7.6
Yorkshire and Humberside	**8.4**	8.6	**5.9**	6.2
Total England	**95.0**	95.3	**89.6**	89.0
Northern Ireland	**0.1**	0.1	**1.7**	1.9
Scotland	**1.7**	1.4	**5.2**	5.6
Wales	**3.2**	3.2	**3.5**	3.5
Total United Kingdom	**100.0**	100.0	**100.0**	100.0

Source: Group Accounts

The majority of the Group's lending, excluding asset finance, development finance and structured lending, is to consumers.

Development Finance

Development finance loans have an average term of 21 months (2019: 20 months). Settlement of principal and accrued interest takes place once the development is sold or refinanced following its completion and the customer is not normally required to make payments during the term of the loan. The loans are secured by a legal charge over the site and / or property together with other charges and warranties related to the build.

As customers are not required to make payments during the life of the loan, arrears and past due measures cannot be used to monitor credit risk. Instead, cases are monitored on an individual basis by management and Credit Risk. The average loan to gross development value ('LTGDV') ratio for the portfolio at year end, a measure of security cover, is analysed below.

	2020	**2020**	2019	2019
	By value	**By number**	By value	By number
	%	**%**	%	%
LTGDV				
50% or less	**7.6**	**4.8**	8.5	3.4
50% to 60%	**22.4**	**13.2**	18.2	15.5
60% to 65%	**34.0**	**41.0**	31.6	39.1
65% to 70%	**31.3**	**36.1**	32.3	32.4
70% to 75%	**2.8**	**4.0**	6.8	8.2
Over 75%	**1.9**	**0.9**	2.6	1.4
	100.0	**100.0**	100.0	100.0

Source: Group Accounts

The average LTGDV cover at the year end was 63.1% (2019: 64.8%).

LTGDV is calculated by comparing the current expected end of term exposure with the latest estimate of the value of the completed development based on surveyors' reports. The Covid-19 pandemic had yet to have a significant impact on expected valuations by the year end.

At 30 September 2020, the development finance portfolio comprised 229 accounts (2019: 207) with a total carrying value of £609.0m (2019: £506.5m). Of these accounts only 7 were included in Stage 2 at 30 September 2020 (2019: 6), with 1 account classified as Stage 3 (2019: none). In addition, 1 account acquired in the Titlestone purchase had been classified as POCI (2019: 3). An allowance for these losses was made in the IFRS 3 fair value calculation.

Asset and Motor Finance

Asset finance loans and motor finance loans are effectively secured by the financed asset.

Asset finance customers are generally small or medium sized businesses. The nature of the assets underlying the Group's asset finance lending by gross carrying value is set out below.

	2020	2019
	%	%
Commercial vehicles	**32.0**	30.3
Construction plant	**33.7**	34.8
Technology	**5.7**	7.8
Manufacturing	**6.7**	6.1
Print and paper	**3.7**	4.8
Refuse disposal vehicles	**4.8**	5.2
Other vehicles	**3.6**	3.0
Agriculture	**2.9**	2.7
Other	**6.9**	5.3
	100.0	100.0

Source: Group Accounts

Motor finance loans are secured over cars, motorhomes and light commercial vehicles and represent exposure to consumers and small businesses.

The broad industrial sectors to which the Group's SME finance business has credit exposure are set out below. All of the activities take place in the UK. All amounts disclosed are pre risk weighting. The balances are shown above as asset finance loans, factoring and discounting balances, professions finance and other commercial loans.

	2020	2019
	%	%
Transport, distribution and construction		
Construction and plant hire	**31.7**	31.4
Distribution	**7.3**	7.0
Waste	**2.3**	2.9
Commercial transport hire	**1.7**	1.7
Travel	**5.8**	5.7
Other transport	**4.8**	3.9
	53.6	52.6
Services		
Business services	**13.3**	16.5
Broadcast and audio	**4.5**	4.7
Local authority	**3.5**	3.4
Veterinary services	**0.9**	1.5
Car hire	**2.1**	1.7
Other services	**6.8**	4.8
	31.1	32.6
Manufacturing		
Print	**2.4**	2.6
Engineering	**2.4**	2.1
Other manufacturing	**7.5**	7.3
	12.3	12.0
Energy and raw materials		
Forestry and agriculture	**3.0**	2.8
Total	**100.0**	100.0

Structured Lending

The Group's structured lending division provides revolving loan facilities to support non-bank lending businesses. Loans are made to a Special Purpose Vehicle ('SPV') company controlled by the customer and effectively secured on the loans made by the SPV. Exposure is limited to a percentage of the underlying assets, providing a buffer against credit loss.

Summary details of the structured lending portfolio are set out below:

	2020	2019
Number of transactions	**8**	8
Total facilities (£m)	**139.0**	135.0
Carrying value (£m)	**94.9**	88.1

Source: Group Accounts

The maximum advance under these facilities was 80% of the underlying assets.

These accounts do not have a requirement to make regular payments, operating on a revolving basis. The performance of each loan is monitored monthly on a case by case basis by the Group's credit risk function, assessing compliance with covenants relating to both the customer and the performance and composition of the asset pool. These assessments, which are reported to Credit Committee, are used to inform the assessment of expected credit loss under IFRS 9.

At 30 September 2020 there were no significant concerns regarding the credit performance of these facilities.

CBILS and BBLS

Loans under these schemes, which were launched in the year as a response to the impact of Covid-19 on UK SMEs, have the benefit of guarantees underwritten by the UK Government.

The Group offers term loans and asset finance loans under the CBIL scheme. Interest and fees are paid by the UK Government for the first twelve months and the government guarantee caps the lender's losses at up to 80% of the outstanding balance.

Loans under the BBL scheme are six year term loans at a standard 2.5% per annum interest rate. The UK Government pays the interest on the loan for the first twelve months and provides lenders with a guarantee covering the whole outstanding balance.

The Group's outstanding CBILS and BBLS loans at 30 September 2020 were:

	2020	2019
	£m	£m
CBILS		
Term loans	**20.6**	-
Asset finance	**1.0**	-
Total CBILS	**21.6**	-
BBLS	**3.6**	-
	25.2	-

At 30 September 2020, all of these accounts were considered to be performing accounts.

Details on these loans, in the format specified for disclosure for large institutions, are given in Appendix F on a voluntary basis.

Trade Debtors

The Group's trade debtors balance represents principally amounts outstanding on unpaid operating lease obligations in the asset finance business, where similar acceptance criteria as are used for finance lease cases apply.

Arrears

The Group conducts detailed analysis of customer servicing risk indicators across its portfolios, analysing some 510 million pieces of customer data each month to identify potential future arrears cases. The Group's customer servicing teams then work with the identified customers to prevent the accounts falling into arrears where possible.

The number of accounts in arrears by asset class, based on the most commonly quoted definition of arrears for the type of asset, at 30 September 2020 and 30 September 2019, compared to the industry averages at those dates published by UK Finance ('UKF') and the Finance and Leasing Association ('FLA'), was:

	2020	2019
	%	%
First mortgages		
Accounts more than three months in arrears		
Buy-to-let accounts including receiver of rent cases	**0.15**	0.18
Buy-to-let accounts excluding receiver of rent cases	**0.10**	0.07
Owner-occupied accounts	**3.72**	2.44
UKF data for mortgage accounts more than three months in arrears		
Buy-to-let accounts including receiver of rent cases	**0.52**	0.42
Buy-to-let accounts excluding receiver of rent cases	**0.50**	0.37
Owner-occupied accounts	**0.90**	0.81
All mortgages	**0.82**	0.73
Second charge mortgage loans		
Accounts more than 2 months in arrears		
All accounts	**14.77**	14.08
Post-2010 originations	**0.62**	0.38
Legacy cases	**21.17**	19.85
Purchased assets	**17.85**	16.05
FLA data for secured loans	**8.40**	8.70
Car loans		
Accounts more than 2 months in arrears	**4.58**	5.25
FLA data for point of sale hire purchase	*	2.70
Asset finance loans		
Accounts more than 2 months in arrears	**1.75**	0.43
FLA data for business lease / hire purchase loans	**1.70**	1.10

*Not published

Source: Group Accounts

No published industry data for asset classes comparable to the Group's other books has been identified. Where revised data at 30 September 2019 has been published by the FLA or UKF, the comparative industry figures above have been amended.

Arrears information is not given for development finance, structured lending or factoring activities as the structure of the products means that such a measure is not relevant.

It should be noted that, where customers have been allowed to defer payments as part of Covid-19 reliefs, these deferrals are not included in arrears measures above.

The Group calculates its headline arrears measure for buy-to-let mortgages, shown above, based on the numbers of accounts three months or more in arrears, including purchased Idem Capital assets, but excluding those cases in possession and receiver of rent cases designated for sale. This is consistent with the methodology used by UKF in compiling its statistics for the buy-to-let mortgage market as a whole.

The number of accounts in arrears will naturally be higher for legacy books, such as the Group's legacy second charge mortgages and residential first mortgages than for comparable active ones, as performing accounts pay off their balances, leaving arrears accounts representing a greater proportion of the total.

The figures shown above for secured loans incorporate purchased portfolios which generally include a high proportion of cases in arrears at the time of purchase and where this level of performance is allowed for in the discount to current balance represented by the purchase price. However, this will lead to higher than average reported arrears.

Acquired assets

In the debt purchase industry, Estimated Remaining Collections ('ERCs') is commonly used as a measure of the value of a portfolio. This is defined as the sum of the undiscounted cash flows expected to be received over a specified future period. In the Group's view, this measure may be suitable for heavily discounted, unsecured, distressed portfolios, but is less applicable for the types of portfolio in which the Group has invested, where cash flows are higher on acquisition, loans may be secured on property and customers may not be in default. In such cases, the IFRS 9 amortised cost balance, at which these assets are carried in the Group balance sheet, provides a better indication of value.

However, to aid comparability, the 84 and 120 month ERCs value for the Group's purchased consumer loan assets, are set out below. These are derived using the same models and assumptions used in the Effective Interest Rate ('EIR') calculations, but the differing bases of calculation lead to different outcomes.

	Carrying value	84 month ERCs	120 month ERCs
	£m	£m	£m
30 September 2020	**235.3**	**277.8**	**313.7**
30 September 2019	291.1	342.3	387.5

Source: Group Accounts

Impairment provisions

From the financial year ended 30 September 2019 the Group implemented the impairment requirements of IFRS 9 - 'Financial Instruments'. This significantly affected the Group's reporting of its credit position, with provisions made on an expected, rather than incurred loss basis, resulting in the earlier recognition of losses.

IFRS 9 requires that impairment is evaluated on an expected credit loss ('ECL') basis. ECLs are based on an assessment of the probability of default ('PD') and loss given default ('LGD'), discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted, considering all reasonable and supportable information, including forward-looking economic assumptions and a range of possible outcomes. Provision may be based on either twelve month or lifetime ECL, dependant on whether an account has experienced a significant increase in credit risk ('SICR').

Calculation of expected credit loss ('ECL')

For the majority of the Group's loan assets, the ECL is generated using statistical models applied to account data to generate PD and LGD components.

PD on both a twelve month and lifetime basis is estimated based on statistical models for the Group's most significant asset classes. The PD calculation is a function of current asset performance, customer information and future economic assumptions. The structure of the models was derived through analysis of correlation in historic data, which identified which current and historical customer attributes and external economic variables were predictive of future loss. PD measures are calculated for the full contractual lives of loans with the models deriving probabilities that, at a given future date, a loan will be in default, performing or closed. The Group utilised all reasonably available information in its possession for this exercise.

LGD for each account is derived by calculating a value for exposure at the point of default (which will include consideration of future interest, account charges and receipts) and reducing this for security values, net of likely costs of recovery. These calculations allow for the Group's potential case management activities. This evaluation includes the potential impact of economic conditions at the time of any future default or enforcement. The derivation of the significant assumptions used in these calculations is discussed below.

In certain asset classes a fully modelled approach is not possible. This is generally where there are few assets in the class, where there is insufficient historical data on which to base an analysis or where certain measures, such as days past due are not useful (eg where the loan agreement does not require regular payments of pre-determined amounts). In these cases, which represent a small proportion of the total portfolio, alternative approaches are adopted. These rely on internal credit monitoring practices and professional credit judgement.

Notwithstanding the mechanical procedures discussed above, the Group will always consider whether the process generates sufficient provision for particular loans, especially large exposures, and will provide additional amounts as appropriate.

In extreme or unprecedented economic conditions, such as the Covid-19 pandemic, it is likely that mechanical models will be less predictive of outcomes as the historical data used for modelling will be insufficiently representative of present conditions. In these circumstances, management carefully review all outputs to ensure provision is adequate.

At 30 September 2020 the effects of the material reductions in GDP since the onset of the Covid-19 crisis had not yet been evidenced in customer credit performance and defaults, due to the lagging effect of government policy interventions. Where customers were given payment reliefs, adverse credit indicators were not recorded by the Group or other lenders, meaning that both internal credit metrics and external credit bureau data might not accurately reflect the customer's credit position, leading to modelled PDs being underestimated.

While forecast economics assume the current economic situation, the future, generally upward, trends also tend to reduce PDs, in a way that may not be justifiable where an underlying credit issue on an account has not emerged, which may result in default as government support initiatives unwind.

In reviewing the subsequent payment patterns of accounts that have been granted Covid-19 reliefs, it is evident that there is higher payment volatility (both in terms of account improvement and deterioration) so whilst credit risk is increased, it is not significant in scale in all cases. The Group has reflected this position by applying PD floors to its payment holiday population in the main portfolios at Stage 1, and moved accounts with payment holiday extensions to Stage 2, again with floors reflecting extrapolations of recent cohort experience to reflect the more adverse economic conditions forecast within the Group's macroeconomic scenarios and to allow for the potential under-recognition of losses caused by these effects.

Significant Increase in Credit Risk ('SICR')

Under IFRS 9, SICR is not defined solely by account performance, but on the basis of the customer's overall credit position, and this evaluation should include consideration of external data. The Group's aim is to define SICR to correspond, as closely as possible, to that population of accounts which are subject to enhanced administrative and monitoring procedures operationally. The Group assesses SICR in its modelled portfolios primarily on the basis of the relative difference in an account's lifetime PD between origination and the reporting date. The levels of difference required to qualify as an SICR may differ between portfolios and will depend, to some extent, on the level of risk originally perceived and are monitored on an ongoing basis to ensure that this calibrates with actual experience.

It should be noted that the use of the current PD, which includes external factors such as credit bureau data, means that all relevant information in the Group's hands concerning the customers' present credit position is included in the evaluation, as well as the impact of future economic expectations.

For non-modelled portfolios, the SICR assessment is based on the credit monitoring position of the account in question and for all portfolios a number of qualitative indicators which provide evidence of SICR have been considered.

In determining whether an account has an SICR in the Covid-19 environment the granting of Covid-19 reliefs, including payment holidays and similar arrangements, may mean that an SICR may exist without this being reflected in either arrears performance or credit bureau data. The Group has accepted the advice of UK regulatory bodies that the grant of initial Covid-19 relief does not, of itself, indicate an SICR, but has carefully considered internal credit and customer data to determine whether there might be any accounts with SICR not otherwise identified by the process.

For customers with extended payment reliefs in place, the account has been placed in Stage 2, regardless of other indicators, as a result of the analysis described above. This aligns the Group's approach to regulatory guidance which suggested that while initial payment reliefs should not automatically be taken as an indication of an SICR, an extension to such a relief was more likely to be so.

In all cases accounts which are more than one month in arrears, where this is a meaningful measure, are considered to have an SICR. However, in certain loan portfolios, regular monthly payments of pre-set amounts are not required and hence this criterion cannot be used.

The Group uses arrears multiples as a proxy for days past due, as this measure is commonly used in its arrears reporting. A loan will generally be one month in arrears from the point it is one day past due until it is thirty days past due.

Definitions of default

As the IFRS 9 definition of ECL is based on PD, default must be defined for this purpose. The Group's definitions of default for its various portfolios are aligned to its internal operational procedures and the regulatory definitions of default used internally. In particular the Group's receiver of rent cases are defined as defaulted for modelling purposes as the behaviour of the case after that point is significantly influenced by internal management decisions.

IFRS 9 provides a rebuttable presumption that an account is in default when it is ninety days overdue and this was used as the basis of the Group's definition. A combination of qualitative and quantitative measures were used in developing the definitions. These include account management activities and internal statuses.

Credit Impaired loans

IFRS 9 defines a credit impaired account as one where the account has suffered one or more event which has had a detrimental effect on future cash flows. It is thus a backward-looking definition, rather than one based on future expectations.

Credit impaired assets are identified either through quantitative measures or by operational status. Designations of accounts for regulatory capital purposes are also taken into account. Assets may also be assigned to Stage 3 if they are identified as credit impaired as a result of management review processes.

All loans which are in the process of enforcement, from the point where this becomes the administration strategy, are classified as credit impaired.

Loans are retained in Stage 3 for three months after the point where they cease to exhibit the characteristics of default. After this point, they may move to Stage 2 or Stage 1 depending on whether an SICR trigger remains.

All default cases are considered to be credit impaired, including all receiver of rent cases and all cases with at least one payment more than ninety days overdue, even where such cases are being managed in the expectation of realising all of the carrying balance. In order to provide better information for users, additional analysis of credit impaired accounts has been presented below distinguishing between receiver of rent accounts, accounts subject to realisation / enforcement procedures and long-term managed accounts, all of which are treated as credit impaired.

IFRS 9 Staging

IFRS 9 calculations and related disclosures require loan assets to be divided into three stages, with accounts which were credit impaired on initial recognition representing a fourth class.

The three classes comprise: those where there has been no SICR since advance or acquisition (Stage 1); those where there has been a SICR (Stage 2); and loans which are impaired (Stage 3).

- On initial recognition, and for assets where there has not been an SICR, provisions will be made in respect of losses resulting from the level of credit default events expected in the twelve months following the balance sheet date
- Where a loan has experienced an SICR, whether or not the loan is considered to be credit impaired, provisions will be made based on the ECLs over the full life of the loan
- For credit impaired assets, provisions will also be made on the basis of ECLs.

For assets which were 'Purchased or Originated as Credit Impaired' ('POCI') accounts (ie considered as credit impaired at the point of first recognition), such as certain of the Group's acquired assets in Idem Capital, the carrying valuation is based on expected cash flows discounted by the EIR determined at the point of acquisition.

An analysis of the Group's loan portfolios between the stages defined above is set out below.

	Stage 1	Stage 2*	Stage 3*	POCI	Total
	£m	£m	£m	£m	£m
30 September 2020					
Gross loan book					
Mortgage Lending	9,822.6	903.2	127.0	15.0	10,867.8
Commercial Lending	1,384.2	132.3	20.2	6.7	1,543.4
Idem Capital	122.9	9.9	28.9	140.3	302.0
Total	11,329.7	1,045.4	176.1	162.0	12,713.2
Impairment provision					
Mortgage Lending	(5.0)	(12.6)	(30.7)	-	(48.3)
Commercial Lending	(17.0)	(3.0)	(8.2)	(0.4)	(28.6)
Idem Capital	(0.2)	(0.2)	(4.5)	-	(4.9)
Total	(22.2)	(15.8)	(43.4)	(0.4)	(81.8)
Net loan book					
Mortgage Lending	9,817.6	890.6	96.3	15.0	10,819.5
Commercial Lending	1,367.2	129.3	12.0	6.3	1,514.8
Idem Capital	122.7	9.7	24.4	140.3	297.1
Total	11,307.5	1,029.6	132.7	161.6	12,631.4

	Stage 1	Stage 2*	Stage 3*	POCI	Total
	£m	£m	£m	£m	£m
30 September 2019					
Gross loan book					
Mortgage Lending	9,847.7	378.2	129.3	15.7	10,370.9
Commercial Lending	1,376.7	64.6	8.2	13.3	1,462.8
Idem Capital	158.2	15.7	30.4	190.0	394.3
Total	11,382.6	458.5	167.9	219.0	12,228.0
Impairment provision					
Mortgage Lending	(0.4)	(2.0)	(24.4)	-	(26.8)
Commercial Lending	(5.4)	(1.3)	(4.0)	-	(10.7)
Idem Capital	(0.2)	(0.4)	(3.8)	-	(4.4)
Total	(6.0)	(3.7)	(32.2)	-	(41.9)
Net loan book					
Mortgage Lending	9,847.3	376.2	104.9	15.7	10,344.1
Commercial Lending	1,371.3	63.3	4.2	13.3	1,452.1
Idem Capital	158.0	15.3	26.6	190.0	389.9
Total	11,376.6	454.8	135.7	219.0	12,186.1

*Stage 2 and 3 balances are analysed in more detail below.

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Coverage ratio					
30 September 2020					
Mortgage Lending	**0.05%**	**1.40%**	**24.17%**	**-**	**0.44%**
Commercial Lending	**1.23%**	**2.27%**	**40.59%**	**5.97%**	**1.85%**
Idem Capital	**0.16%**	**2.02%**	**15.57%**	**-**	**1.62%**
Total	**0.20%**	**1.51%**	**24.65%**	**0.25%**	**0.64%**
30 September 2019					
Mortgage Lending	-	0.53%	18.87%	-	0.26%
Commercial Lending	0.39%	2.01%	48.78%	-	0.73%
Idem Capital	0.13%	2.55%	12.50%	-	1.12%
Total	0.05%	0.81%	19.18%	-	0.34%

In terms of the Group's credit management processes, Stage 1 cases will fall within the appropriate customer servicing functions and Stage 2 cases will be subject to account management arrangements. Stage 3 cases will include both those subject to recovery or similar processes and those which, though being managed on a long-term basis, are included with defaulted accounts for regulatory purposes. However, these broad categorisations may vary between different product types.

POCI balances included in the Commercial Lending segment arise principally from acquired businesses, where those assets were identified as credit impaired at the point of acquisition when the acquired portfolios as a whole were evaluated. Additional provision arising on these assets post-acquisition is shown as 'Impairment Provision' above.

Idem Capital loans include acquired consumer and motor finance loans together with legacy (originated pre-2010) second charge mortgage and unsecured consumer loans. Legacy assets and acquired loans which were performing on acquisition are included in the staging analysis above.

Acquired portfolios within the Mortgage Lending and Idem Capital segments which were largely non-performing at acquisition, and which were purchased at a deep discount to face value are shown as POCI assets above. Although no provision is shown above for such assets, the effect of the discount on purchase is included in the gross value ensuring that the carrying value is substantially less than the current balances due from customers and the level of cover is considerable.

Analysis of Stage 2 loans

The table below analyses the accounts in Stage 2 between those not more than one month in arrears where an SICR has nonetheless been identified from other information and accounts more than one month in arrears, which are automatically deemed to have an SICR.

Levels of Stage 2 assets have been increased significantly as a result of the Covid-19 outbreak. This is seen in an increased level of assets where an SICR has been identified in the absence of arrears on the account, particularly through the evaluation of the potential significance of extended payment holidays. In Mortgage Lending and Idem Capital the level of Stage 2 arrears accounts has fallen, due to regulatory interventions preventing arrears being recorded.

Coverage levels have increased in both Mortgage Lending and Commercial Lending, as a consequence of the harsher economic assumptions applied in 2020 and the PD floors applied to accounts with payment holiday extensions. Reduced expectations of security values have also increased provision requirements. Impacts on the highly seasoned Idem Capital books have been less and the levels of such assets in Stage 2 remain relatively small.

	< 1 month arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m
30 September 2020			
Gross loan book			
Mortgage Lending	**879.9**	**23.3**	**903.2**
Commercial Lending	**113.2**	**19.1**	**132.3**
Idem Capital	**4.8**	**5.1**	**9.9**
Total	**997.9**	**47.5**	**1,045.4**
Impairment provision			
Mortgage Lending	**(12.0)**	**(0.6)**	**(12.6)**
Commercial Lending	**(2.5)**	**(0.5)**	**(3.0)**
Idem Capital	**(0.1)**	**(0.1)**	**(0.2)**
Total	**(14.6)**	**(1.2)**	**(15.8)**
Net loan book			
Mortgage Lending	**867.9**	**22.7**	**890.6**
Commercial Lending	**110.7**	**18.6**	**129.3**
Idem Capital	**4.7**	**5.0**	**9.7**
Total	**983.3**	**46.3**	**1,029.6**

	< 1 month arrears	> 1 <= 3 months arrears	Total
	£m	£m	£m
30 September 2019			
Gross loan book			
Mortgage Lending	336.3	41.9	378.2
Commercial Lending	57.2	7.4	64.6
Idem Capital	7.7	8.0	15.7
Total	401.2	57.3	458.5
Impairment provision			
Mortgage Lending	(1.3)	(0.7)	(2.0)
Commercial Lending	(1.0)	(0.3)	(1.3)
Idem Capital	(0.2)	(0.2)	(0.4)
Total	(2.5)	(1.2)	(3.7)
Net loan book			
Mortgage Lending	335.0	41.2	376.2
Commercial Lending	56.2	7.1	63.3
Idem Capital	7.5	7.8	15.3
Total	398.7	56.1	454.8

	< 1 month arrears	> 1 <= 3 months arrears	Total
Coverage ratio			
30 September 2020			
Mortgage Lending	**1.36%**	**2.58%**	**1.40%**
Commercial Lending	**2.21%**	**2.62%**	**2.27%**
Idem Capital	**2.08%**	**1.96%**	**2.02%**
Total	**1.46%**	**2.53%**	**1.51%**
30 September 2019			
Mortgage Lending	0.39%	1.67%	0.53%
Commercial Lending	1.75%	4.05%	2.01%
Idem Capital	2.60%	2.50%	2.55%
Total	0.62%	2.09%	0.81%

Analysis of Stage 3 loans

The table below analyses the accounts in Stage 3 between accounts in the process of enforcement or where full recovery is considered unlikely ('Realisations' in the table), loans being managed on a long term basis where full recovery is possible but which are considered in default for regulatory purposes and buy-to-let mortgages where a receiver of rent ('RoR') has been appointed by the Group to manage the property on the customer's behalf. RoR accounts in Stage 3 may be fully up-to-date with full recovery possible. These accounts are included in Stage 3 as they are classified as defaulted for regulatory purposes.

Accounts which no longer meet default criteria, but which are being retained in Stage 3 for a probationary period, are included with the > 3 month arrears accounts below.

The impact of Covid-19 on the Group's Stage 3 loans can be seen mostly in the level of > 3 month arrears accounts shown below, both in terms of increased numbers and in higher provision coverage. The impact is proportionally less in Idem Capital where there is a significant balance of second charge loans which are long-term arrears balances, the customer making regular payments, but not reducing arrears. Government and regulatory policy intervention have reduced the likelihood of new enforcement actions, particularly on consumer portfolios.

In Mortgage Lending the overall level of Stage 3 balances has continued to reduce, despite Covid-19 as the managed work-out of legacy receiver of rent cases continued in the period. Coverage for Stage 3 RoR managed and realisations cases has increased over the year as a result of a less positive outlook for property sale values. The coverage ratio for Commercial Lending is subject to large fluctuations, as the number and absolute value of Stage 3 cases are relatively low and hence the specific details of individual cases will influence the ratio.

	> 3 month arrears	RoR managed	Realisations	Total
	£m	£m	£m	£m
30 September 2020				
Gross loan book				
Mortgage Lending	**19.4**	**86.7**	**20.9**	**127.0**
Commercial Lending	**11.4**	**-**	**8.8**	**20.2**
Idem Capital	**24.3**	**-**	**4.6**	**28.9**
Total	**55.1**	**86.7**	**34.3**	**176.1**
Impairment provision				
Mortgage Lending	**(1.7)**	**(20.8)**	**(8.2)**	**(30.7)**
Commercial Lending	**(4.2)**	**-**	**(4.0)**	**(8.2)**
Idem Capital	**(2.8)**	**-**	**(1.7)**	**(4.5)**
Total	**(8.7)**	**(20.8)**	**(13.9)**	**(43.4)**
Net loan book				
Mortgage Lending	**17.7**	**65.9**	**12.7**	**96.3**
Commercial Lending	**7.2**	**-**	**4.8**	**12.0**
Idem Capital	**21.5**	**-**	**2.9**	**24.4**
Total	**46.4**	**65.9**	**20.4**	**132.7**

	> 3 month arrears	RoR managed	Realisations	Total
	£m	£m	£m	£m
30 September 2019				
Gross loan book				
Mortgage Lending	8.3	106.3	14.7	129.3
Commercial Lending	1.7	-	6.5	8.2
Idem Capital	26.0	-	4.4	30.4
Total	36.0	106.3	25.6	167.9
Impairment provision				
Mortgage Lending	(0.4)	(19.3)	(4.7)	(24.4)
Commercial Lending	(0.5)	-	(3.5)	(4.0)
Idem Capital	(1.9)	-	(1.9)	(3.8)
Total	(2.8)	(19.3)	(10.1)	(32.2)
Net loan book				
Mortgage Lending	7.9	87.0	10.0	104.9
Commercial Lending	1.2	-	3.0	4.2
Idem Capital	24.1	-	2.5	26.6
Total	33.2	87.0	15.5	135.7

	> 3 month arrears	RoR managed	Realisations	Total
Coverage ratio				
30 September 2020				
Mortgage Lending	**8.76%**	**23.99%**	**39.23%**	**24.17%**
Commercial Lending	**36.84%**	**-**	**45.45%**	**40.59%**
Idem Capital	**11.52%**	**-**	**36.96%**	**15.57%**
Total	**15.79%**	**23.99%**	**40.52%**	**24.65%**
30 September 2019				
Mortgage Lending	4.82%	18.16%	31.97%	18.87%
Commercial Lending	29.41%	-	53.85%	48.78%
Idem Capital	7.31%	-	43.18%	12.50%
Total	7.78%	18.16%	39.45%	19.18%

The RoR managed accounts are being managed to ensure the optimal resolution for landlords, tenants and lenders and this long-term, stable situation underpinned their treatment as not impaired under IAS 39, but the existence of the RoR arrangement causes the accounts to be treated as defaulted for regulatory purposes.

Idem Capital balances with over three months arrears comprise principally second charge mortgage accounts originated over ten years ago which have been over three months in arrears for some time. These accounts are generally making regular payments and have significant levels of equity in the underlying property which reduces the required provision to the value shown above. It is expected that a high proportion of these accounts will eventually redeem naturally, either on the sale of the property or by the satisfaction of the amount due through instalment payments.

Further information

Further information on the Group's IFRS 9 impairment calculations and the credit risk profile of its loan assets can be found in the Group Accounts in notes 16 to 19 and 56.

6. Asset encumbrance

This section sets out
• An overview of the Group's overall exposure to asset encumbrance
• An analysis of encumbered assets as disclosed in the Group Accounts
• The asset encumbrance template disclosures required under CRD IV

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 operation, within the context of a robust and diversified funding capability.

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 the regulators to ensure that its encumbrance profile remains transparent, proportionate and relevant to the business model.

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

Sources 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.

Unencumbered assets include cash-in-hand, un-securitised loan assets, derivative assets, property, plant and other fixed assets, intangible assets including goodwill, and deferred tax assets.

During the year the Bank had outstanding drawings under the Bank of England Term Funding Scheme ('TFS'), which utilises whole mortgage pools, to support new lending. This funding scheme is based on the value of the pledged assets, subject to a haircut. At 30 September 2020, £944.4m had been drawn under the TFS (2019: £944.4m).

The Group has been approved to participate in the Bank of England SME Term Funding Scheme ('TFSME'), which was launched in the year in response to the Covid-19 pandemic. The Group had drawn £910.0 million under TFSME by 30 September 2020.

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

In the year the Group also participated in the Bank of England Funding for Lending Scheme ('FLS'), also using whole pools of mortgages as security and providing off-balance sheet liquidity. This facility expired in June 2020. The amount of the liquidity presently drawn at the year end was £nil (2019: £109.0m). Further liquidity is provided by a long / short repo transaction, which has also encumbered loan notes.

During the year the Group also participated in the Bank of England Indexed Long-Term Repo ('ILTR') scheme and its Contingent Term Repo Facility ('CTRF') which also encumbered assets. Drawings under these schemes at 30 September 2020 were nil (2019: £50.0m).

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

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.

Loans to customers

An analysis of the Group's loan assets between assets pledged as collateral under central bank facilities or under securitisation and warehouse funding arrangements are shown below. These include notes retained by the Group described below. The table also shows assets prepositioned with the Bank of England for use in future drawings.

	First Mortgages	Consumer Finance	Other	Total
	£m	£m	£m	£m
30 September 2020				
In respect of:				
Asset backed loan notes	**4,106.4**	**-**	**-**	**4,106.4**
Warehouse facilities	**881.9**	**-**	**-**	**881.9**
Central bank facilities	**2,875.3**	**-**	**-**	**2,875.3**
Total pledged as collateral	**7,863.6**	**-**	**-**	**7,863.6**
Prepositioned with Bank of England	**1,072.3**	**-**	**-**	**1,072.3**
Other assets not pledged as collateral	**1,701.0**	**736.6**	**1,257.9**	**3,695.5**
	10,636.9	**736.6**	**1,257.9**	**12,631.4**
30 September 2019				
In respect of:				
Asset backed loan notes	4,338.3	-	-	4,338.3
Warehouse facilities	948.1	-	-	948.1
Central bank facilities	1,734.4	-	-	1,734.4
Total pledged as collateral	7,020.8	-	-	7,020.8
Prepositioned with Bank of England	1,873.7	-	-	1,873.7
Other assets not pledged as collateral	1,278.0	842.8	1,170.8	3,291.6
	10,172.5	842.8	1,170.8	12,186.1

Source: Group Accounts

At 30 September 2020, 39.5% (2019: 43.3%) of the carrying value of the Group's loans to customers was funded by securitisations and structures affecting the credit risk exposure of the Group in a similar way (see Section 10).

Retained notes

The Group holds certain of its own listed, externally rated, asset backed securities which may be used as security to access credit facilities, including those offered by the Bank of England. The principal value of these notes is analysed by credit grade and utilisation status below.

	2020			2019		
	Utilised	**Available**	**Total**	Utilised	Available	Total
	£m	**£m**	**£m**	£m	£m	£m
Rating						
AAA	**367.8**	**643.6**	**1,011.4**	57.5	341.2	398.7
AA+ / AA / AA-	**3.4**	**64.2**	**67.6**	1.2	24.6	25.8
A+ / A / A-	**3.6**	**51.8**	**55.4**	2.5	30.1	32.6
BBB+ / BBB / BBB-	**3.4**	**64.2**	**67.6**	18.5	43.4	61.9
	378.2	**823.8**	**1,202.0**	79.7	439.3	519.0

Mortgage assets backing these securities remain on the Group's balance sheet and are included in the tables above.

Utilised notes includes those which the Group is obliged to hold under regulations governing securitisation issuance.

Additional notes issued after the year end provide access to further liquidity.

Standard disclosures

The disclosures below are drawn up in accordance with the templates included in Commission Delegated Regulation (EU) 2017/2295. This means they will differ to the asset encumbrance disclosures presented in the Group Accounts, due to scope and definition differences. Furthermore, the Regulation requires that the data is presented as an interpolated median calculation, based on the four quarter end positions, rather than at a point in time.

These interpolated medians are calculated on a line by line basis, so totals presented may not equal the sum of component amounts where the same two quarters are not used to calculate the median.

This regulation uses the definitions set out for regulatory reporting purposes, set out in Annex XVI to Commission Implementing Regulation (EU) 680/2014 as its basis, but makes some changes to analysis of items, as well as requiring the use of medians.

Assets encumbered (Template A)

This sets out the assets of the Group, analysed between those pledged as security or otherwise encumbered and unencumbered assets, both at their carrying amounts and fair values (where reported), split by category of asset, and in some cases, further analysed. It should be noted that the template may not provide sub-categories for all balances within an individual category. A row reference has been provided to align the table below with Template A set out in Regulation 2017/2295.

Row Ref		Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
At 30 September 2020					
010	**Assets of the reporting institution**	**7,045.5**	**N/A**	**7,904.7**	**N/A**
040	Debt securities	-	-	-	-
070	*Of which: issued by general governments*	-	-	-	-
120	Other assets	7,045.5	N/A	7,904.7	N/A
121	*Of which: Loans on demand*	215.2	N/A	1,073.6	N/A
	Of which: Loans and advances other than loans on demand	6,306.5	N/A	6,180.9	N/A
	Of which: mortgage loans	6,306.5	N/A	4,541.5	N/A
	Of which: non-loan assets	506.6	N/A	452.2	N/A
At 30 September 2019					
010	**Assets of the reporting institution**	**7,716.7**	**N/A**	**6,648.6**	**N/A**
040	Debt securities	-	-	-	-
070	*Of which: issued by general governments*	-	-	-	-
120	Other assets	7,716.7	N/A	6,631.7	N/A
121	*Of which: Loans on demand*	311.1	N/A	861.4	N/A
	Of which: Loans and advances other than loans on demand	6,767.9	N/A	5,492.0	N/A
	Of which: mortgage loans	6,767.9	N/A	3,846.9	N/A
	Of which: non-loan assets	662.7	N/A	331.2	N/A

In the template above, encumbered 'Loans on demand' includes the cash balances held within the Group's securitisation SPVs, while encumbered 'non-loan assets' includes derivatives and other assets held by those SPVs. Unencumbered 'non-loan assets' includes principally intangible assets, which may not be encumbered.

Where assets are included in securitisations where the Group has retained a proportion of the issued notes, the assets attributable to the retained amount are shown as unencumbered above.

The analysis at row 121 is provided in order to explain the use of encumbrance within the business, as required by Regulation 2017/2295.

Collateral received (Template B)

This template sets out items which might not be shown on a firm's balance sheet, but which are nonetheless available for encumbrance. In the Group's case these will include retained notes in its securitisations, which are eliminated on consolidation, but may be used as collateral in future borrowing arrangements. The assets backing these notes will be included amongst the unencumbered assets in table A. Collateral which is not available for encumbrance is not required to be shown in the table.

Row Ref		Fair value of encumbered collateral received or own debt securities issued £m	Fair value of collateral received or own debt securities issued available for encumbrance £m
At 30 September 2020			
130	Collateral received by the organisation	-	-
240	Own debt securities issued other than own covered bonds or Asset Backed Securities (ABS)	-	-
241	**Own covered bonds and ABS issued and not yet pledged**	**N/A**	**839.4**
250	Total assets, collateral received and own debt securities issued*	-	-
At 30 September 2019			
130	Collateral received by the organisation	-	-
240	Own debt securities issued other than own covered bonds or Asset Backed Securities (ABS)	-	-
241	**Own covered bonds and ABS issued and not yet pledged**	**N/A**	**317.2**
250	Total assets, collateral received and own debt securities issued*	-	-

*The total on line 250 excludes, by definition, own covered bonds and ABS issued but not yet pledged.

Encumbered assets / collateral received and associated liabilities (Template C)

This table sets out those of the Group's liabilities and contingent liabilities in respect of which it has given security, or otherwise encumbered assets, set out in the left-hand column. In the right-hand column is set out the value of the Group's assets or collateral to which it is entitled, which are encumbered in respect of those liabilities.

Row Ref		Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
At 30 September 2020			
010	Carrying amount of selected financial liabilities	**5,808.2**	**6,871.4**
011	*Asset Backed Securities*	**3,840.3**	**4,133.4**
	Secured bank borrowings	**706.1**	**908.3**
	Central bank borrowings	**1,114.4**	**1,771.2**
	Other sources of encumbrance	**78.8**	**94.0**
	Total sources of encumbrance	**5,890.0**	**7,045.5**
At 30 September 2019			
010	Carrying amount of selected financial liabilities	6,644.2	7,534.4
011	*Asset Backed Securities*	4,781.2	5,023.4
	Secured bank borrowings	964.1	982.7
	Central bank borrowings	1,009.4	1,562.4
	Other sources of encumbrance	140.8	185.9
170	**Total sources of encumbrance**	6,785.0	7,716.7

Regulation 2017/2295 requires only line 010 above, but provides that firms should additionally disclose sufficient information to explain their use of encumbrance.

Narrative information (Template D)

The narrative information required by Template D is set out within this Section 6.

7. Counterparty credit risk

This section sets out
• An overview of the Group’s policy on counterparty credit exposure
• The Group’s institutional exposures and the ratings used for these balances

The Group’s Treasury Policy statements include policies covering liquidity risk, interest risk, foreign exchange risk and wholesale counterparty risk, which are used to manage the credit risk that arises from exposures to treasury counterparties. The Wholesale Credit Risk Policy limits the Group’s exposure to individual counterparties and compliance with the policy is reviewed monthly by ALCO. The Group requires all counterparties with which it contracts to meet specific credit rating criteria. The Group has limited appetite for risk on derivative financial instruments and only enters into such contracts for hedging purposes.

In order to control credit risk relating to counterparties to the Group’s derivative financial instruments and cash deposits, ALCO determines which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits. Exposure is monitored daily by senior management within the Group’s treasury function and is reported monthly to ALCO. Counterparties are typically highly rated banks and, for all cash deposits and derivative positions held within the Group’s securitisation structures, must comply with criteria set out in the financing arrangements, which are monitored externally.

Where a derivative counterparty to the Group’s cross-currency basis swaps in the SPVs fails to meet the required criteria, the counterparty is obliged under the terms of the SPV documentation to provide collateral to cover exposures. Any such collateral is held in escrow and does not form part of the Group’s cash or liquidity position. At year end, no collateral was held (although during the year collateral was held in respect of First Flexible No. 6 (‘FF6’)).

The Group uses the International Swaps and Derivatives Association (‘ISDA’) Master Agreement for documenting certain derivative activity. For certain counterparties a Credit Support Annex (‘CSA’) has been executed in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between counterparties to mitigate the market contingent counterparty risk inherent in the outstanding positions. Collateral pledged to the Group is shown below.

This use of collateral is the only credit mitigation technique used by the Group.

Since June 2019, the Group has been centrally clearing eligible derivatives with a Central Clearing Counterparty (‘CCP’) which removes credit risk between bilateral counterparties and ensures timely settlement and/or porting of derivative contracts in the event of failure.

While the Group’s counterparty credit risk policies cover all of its institutional exposures, the CRR defines counterparty credit risk for the Group as the credit risk relating to its derivative asset exposures only.

Summary of exposures

The Group's counterparty credit risk exposures can be summarised as shown below.

	Carrying value		Exposure value	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Institutional exposures				
Derivative financial assets	**463.3**	592.4	**236.0**	286.4
Bank deposits	**287.9**	409.0	**57.6**	81.8
CSA assets	**103.5**	72.2	**46.6**	36.1
Total institutional exposures	**854.7**	1,073.6	**340.2**	404.3
Sovereign exposures				
Central bank deposits	**1,637.1**	816.4	**-**	-
CRDs	**15.1**	11.4	**-**	-
Accrued interest on sovereign exposures	**-**	0.2	**-**	-
Total sovereign exposures	**1,652.2**	828.0	**-**	-
Total counterparty credit exposures	**2,506.9**	1,901.6	**340.2**	404.3

Exposure values are calculated in accordance with the SA.

Derivative financial assets

The Group's exposure to credit risk in respect of the counterparties to its derivative financial assets, analysed by their long-term credit rating as determined by Fitch, and the Credit Quality Step ('CQS') to which these are mapped by the regulator, is set out below.

		Carrying value		Exposure value	
		2020	2019	**2020**	2019
		£m	£m	**£m**	£m
Counterparties rated					
AA	(CQS 1)	**-**	7.3	**-**	1.8
AA-	(CQS 1)	**97.8**	155.6	**23.8**	37.6
A+	(CQS 2)	**364.2**	388.8	**211.1**	228.4
A	(CQS 2)	**1.3**	5.5	**1.1**	6.4
A-	(CQS 2)	**-**	35.2	**-**	22.6
Gross exposure		**463.3**	592.4	**236.0**	296.8
Collateral amounts posted		**-**	(64.1)	**-**	(10.4)
Net exposure		**463.3**	528.3	**236.0**	286.4

Source: Group Accounts (excluding exposure values)

The carrying values shown above are calculated as the fair value of the assets at the balance sheet date in accordance with the provisions of IFRS 13 – 'Fair Value Measurement'. The exposure values are calculated according to the Standardised Approach for risk weighting and include allowances for potential future exposure ('PFE') on all derivatives whether they are currently assets or liabilities.

The reduction in exposure value shown against the collateral amounts posted represents the impact on risk weighted assets of the use of the collateral for the purpose of credit risk mitigation.

Cash collateral deposits placed by derivative counterparties are held with UK banks or other entities which satisfy a minimum rating of at least F1 and a long-term default rating of A by Fitch, and similar ratings by other agencies. These deposits will therefore always qualify for CQS 1.

The only financial instruments to which the Group is a party which require the posting of collateral are certain interest rate swaps in Paragon Bank documented under the ISDA Master Agreement. For certain counterparties to such swaps a CSA has been executed, and the amount of collateral posted by the Group under such CSA agreements at 30 September 2020 was £103.5m (30 September 2019: £72.2m). This amount remains on the Group balance sheet.

Short term investments

The Group may hold short term investments within the Bank as part of the liquidity buffer it is required to hold by the PRA. These investments may only be placed in treasury bills and gilts issued by the UK Government, or such similar instruments as are permitted by the regulator, and as such the credit risk is judged to be minimal.

No such securities were held at either 30 September 2020 or 30 September 2019.

Cash and cash equivalents

The Group's cash balances are held in sterling at the Bank of England and highly rated banks in current accounts and as short fixed term deposits and money market placements. The Group has a large exposures policy to mitigate any concentration risk in respect of its cash deposits.

The list of institutions where the Group's cash balances may be placed is agreed annually by ALCO, but kept under permanent review by the treasury function. Counterparties for corporate deposits must be rated at least P-2 by Moody's and/or F2 by Fitch Ratings. Counterparties for deposits in SPV companies must be rated at least P-1 by Moody's and/or F1 by Fitch Ratings.

The SPV deposits, which comprise the greatest proportion of the Group's cash position, will therefore always qualify for CQS 1, with other deposits qualifying for at least CQS 2. Credit risk on these balances and the interest accrued thereon is considered to be minimal.

The Group's exposure to credit risk in respect of bank deposits with retail banks, analysed by their long term credit rating as determined by Fitch, and the CQS to which these are mapped by the regulator, is set out below.

		Carrying value		Exposure value	
		2020	2019	**2020**	2019
		£m	£m	**£m**	£m
Institutions rated					
AA-	(CQS 1)	**112.0**	230.5	**22.4**	46.1
A+	(CQS 2)	**175.9**	173.5	**35.2**	34.7
A-	(CQS 2)	**-**	5.0	**-**	1.0
		287.9	409.0	**57.6**	81.8

Balances with the Bank of England enjoy the UK's sovereign rating of AA- (2019: AA).

8. Interest rate risk

This section sets out
• An overview of the Group's exposure to interest rate risk
• The sources of that risk
• The Group's approach to controlling the risk
• An illustration of the Group's sensitivity to movements in interest rates

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 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 operate a trading book and does not seek to generate income from taking interest rate risk. The Group aims to minimise exposures that occur as a natural consequence of carrying out its normal business activities.

IRRBB exposures

Risk exposure in the Group's operations might occur through:

- Duration or repricing risk. The risk created when interest rates on assets, liabilities and off-balance sheet items reprice at different times causing them to move by different amounts
- Basis risk. The risk arising where assets and liabilities reference different interest benchmarks which might not move in line with each other thereby negatively impacting earnings. For example, Bank of England base rate, SONIA and LIBOR or rates set by the Group.
- Optionality or prepayment risk. The risk that assets and liabilities mature at different times from those forecast due to economic conditions or customer behaviour thereby creating unexpected mismatches

Due to the maturity transformation inherent in the Group's business model it is also exposed to the risk that the relationship between the rates affecting the shorter-term funding balance and the rates affecting the longer-term lending balance will have altered when the funding has to be refinanced.

The principal market-set interest rate used by the Group has historically been the London Interbank Offered Rate ('LIBOR') which has been used to set rates for certain loan assets and borrowings. Since 2019, the Group has issued debt with interest set by reference to the Sterling Overnight Index Average ('SONIA') and new interest rate swaps have been executed with reference to SONIA since February 2020.

Interest rate benchmarks such as LIBOR have been subject to increasing global regulatory scrutiny. In July 2017 the FCA announced that it was its intention that by the end of 2021 it would no longer compel banks to make submissions to the LIBOR setting process. As a result of this, LIBOR is expected to be discontinued. The Bank of England's Working Group on Sterling Risk-Free Interest Rates has recommended SONIA as its replacement. However, there remains significant uncertainty as to how the transition from LIBOR and other Interbank Offered Rates to alternative benchmarks will be managed across the banking industry.

LIBOR is used in setting interest rates on significant amounts of the Group's loan assets and borrowings and the Group has established an internal working group to identify the impact on the business and ensure an orderly transition from LIBOR to other reference rates.

Further information on these exposures is given in note 58 to the Group Accounts.

Managing IRRBB

The Group's risk management framework for IRRBB continues to evolve in line with updates in regulatory guidance on methods expected to be used by banks measuring, managing, monitoring and controlling such risks. The Group will continue to develop these processes as interpretation of these standards becomes clearer as they become more widely implemented.

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. Day to day management of interest rate risk is the responsibility of the Group's treasury function, with control and oversight provided by ALCO.

The Group measures IRRBB risks through a combination of economic value and earnings-based measures considering prepayment risk:

- Economic Value ('EV'). A range of parallel and non-parallel interest rate stresses are applied to assess the change in market value from assets, liabilities and off-balance sheet items re-pricing at different times.
- Net Interest Income ('NII'). Impact on earnings from a range of interest rate stresses.

The Group has performed stress testing in order to assess whether a Pillar 2a add-on is required for interest rate risk and capital has been provided in accordance with the results.

Interest rate sensitivity

The sensitivity of the Group's earnings to movements in UK interest rates is illustrated below. This table shows the effect of a 1.0% movement in interest rates on the annual interest payable or receivable on those of the Group's assets and liabilities which bear interest at variable rates, based on the balances outstanding on such assets and liabilities at 30 September 2020 and 30 September 2019. For the purpose of this disclosure, movements in bank base rates and market interest rates are assumed to be broadly parallel and movements in market rates are assumed to be passed on immediately to borrowers and depositors where rates are in the Group's control. Any repricing is assumed to take place on the year end date.

	2020	2019
	£m	£m
Variable rate mortgage loans	**46.3**	49.4
Variable rate consumer loans	**2.8**	3.3
Portfolio hedging on fixed rate loans	**58.6**	26.8
Interest bearing cash balances	**19.2**	22.2
Sterling equivalent principal of FRN and warehouse borrowings	**(53.4)**	(47.1)
Central bank funding at bank base rate	**(18.5)**	(9.4)
Variable rate retail deposits	**(22.4)**	(22.3)
Portfolio hedging on fixed rate retail deposits	**(31.3)**	(22.2)
	1.3	0.7

It should be noted that such a change in rates might have other impacts on the Group's performance and that the extent to which increases in rates can be passed on to certain customers may be limited by commercial and regulatory factors.

The sensitivity set out above is illustrative only, and much simplified from those used to manage IRRBB in practice.

9. Liquidity risk

This section sets out
• An overview of the Group's exposure to liquidity risk and liquidity position
• The Group's approach to managing this risk
• Key metrics relating to liquidity risk
• Sources of further available liquidity

Liquidity risk exposure represents the amount of potential stressed outflows in any future period less expected inflows. Liquidity is considered from both an internal and a regulatory perspective. The Group's most material source of liquidity risk arises from the Bank's obligations to retail depositors and that exposure, which is subject to PRA regulation, is considered here.

The Board has set a liquidity risk appetite which aims to ensure a sufficient level of liquidity is held to cover any unexpected outflows, such that the Group is always able to meet its short-term commitments as required. The risk appetite set takes into consideration appropriate liquidity risk stresses to ensure liquidity remains appropriate throughout a target survival period.

The Group's retail funding strategy is focused on building a stable mix of deposit products. A high proportion of balances, 97.3% (2019: 97.8%), are protected by the Financial Services Compensation Scheme ('FSCS') which mitigates against the possibility of a retail run.

The cash outflows, including principal and estimated interest contractually required by the Group's retail deposit balances, analysed by the earliest date at which repayment can be demanded are set out below:

	2020	2019
	£m	£m
Payable on demand	**2,363.8**	1,783.9
Payable in less than three months	**598.3**	482.7
Payable in less than one year but more than three months	**2,777.9**	2,151.4
Payable in less than one year or on demand	**5,740.0**	4,418.0
Payable in one to two years	**7,608.2**	1,210.1
Payable in two to five years	**704.5**	982.4
	8,052.7	6,610.5

Source: Group Accounts

In order to reduce the liquidity risk inherent in the Group's retail deposit balances, the PRA requires that the Bank, like other regulated banks, maintains a buffer of liquid assets to ensure it has sufficient available funds at all times to protect against unforeseen circumstances. The amount of this buffer is calculated using Individual Liquidity Guidance ('ILG') set by the PRA based on the ILAAP submitted by the Bank. The ILAAP determines the liquid resources that must be maintained in the Bank to meet its Overall Liquidity Adequacy Requirement ('OLAR') and to ensure that it can meet its liabilities as they fall due. It is based on an analysis of its business as usual forecast cash requirements but also considers their predicted behaviour in stressed conditions.

At 30 September 2020 the liquidity buffer comprised the following on and off balance sheet assets, all held within the Bank.

	2020	2019
	£m	£m
Balances with central banks	**1,386.9**	646.4
Total on balance sheet liquidity	**1,386.9**	646.4
FLS drawings	**-**	109.0
Long/ short repo transaction	**150.0**	-
	1,536.9	755.4

Source: Group Accounts

Risk monitoring

To protect the Group and its customers against the effects of liquidity risk, the Group performs regular assessments of its liquidity position through meetings of the Liquidity Outlook Group ('LOG'), ALCO and the ILAAP.

LOG meetings occur weekly and comprise senior operational, treasury, finance and savings managers who meet to ensure a sufficient liquidity position is being held as well as to forecast any upcoming liquidity surplus or deficits to ensure appropriate action can be taken. The outcomes and key findings from LOG meetings are then escalated to ALCO meetings to ensure a clear and consistent communication line is maintained.

Through the LOG process, the Bank manages its Liquidity Coverage Ratio ('LCR'), the level of its High Quality Liquid Assets ('HQLA) relative to its short term forecast net cash outflows. A minimum level of LCR, the Liquidity Coverage Requirement, is set through regulation for all regulated financial institutions. The Bank also monitors its Net Stable Funding Ratio ('NSFR') which measures the stability of the funding profile in relation to the composition of its assets and off-balance sheet activities.

Through the ILAAP the Group assesses the level of liquidity required to prudently cover a wide variety of systemic and idiosyncratic risks. This process identifies a liquidity buffer for the Group to hold in order to cover such circumstances.

Key Liquidity Indicators

The Group's operational capital and funding requirements are also influenced by the Group's policy to hold sufficient liquidity in the business to meet its 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 Board regularly reviews liquidity risk appetite and closely monitors a number of key internal and external measures. The most significant of these, which are calculated for the Paragon Bank regulatory group on a basis which is standardised across the banking industry, are the LCR and NSFR.

The monthly average LCR for the year was 173.7% compared to 143.7% during 2019, reflecting the steps taken to enhance liquidity in response to the Covid-19 situation. The year end NSFR stood at 114.7%, in line with the 115.0% reported at 30 September 2019.

The LCR is likely to return to more normal levels if and when the economic outlook becomes more clear.

Appendix E sets out certain of the disclosures on liquidity mandated by the EBA Guidelines on LCR disclosure (EBA/GL/2017/01), appropriate to the Group's size.

Potential liquidity

At 30 September 2020 the Group had £4,767.8m of unencumbered loan assets at carrying value, which might be used to generate liquidity either as security for debt, or through sales (2019: £5,165.3m). Of these £1,072.3m had been pre-positioned with the Bank of England, giving rapid access to central bank funding (2019: £1,873.7m).

The Group's retained notes, described in Section 6 above, also enable Bank of England facilities to be accessed and may also be used as security in other liquidity transactions.

These provide the Group with the ability to raise funds at short notice, if required, and therefore aid the liquidity position.

Available cash at the year end, including balances forming part of the liquidity buffer, but excluding already charged balances, was £1,701.1m (2019: £872.1m).

Further information

More details on the Group's wider, longer-term liquidity exposure are given in note 57 to the Group Accounts.

10. Securitisation

This section sets out
• The Group's involvement in securitisation
• The location of the information required to be disclosed under Part 8

One of the Group's principal sources of funding is 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 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. These notes, which have the benefit of the credit enhancement structure of the securitisation and are externally rated, are well-suited to being pledged as security to access other funding or liquidity sources.

For accounting purposes these transactions are treated as financing transactions and the 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. For regulatory capital purposes the securitisation transactions do not meet the threshold for significant risk transfer and no securitisation exposures are included in RWA.

All of the Group's loan assets funded through securitisation are included in 'loans to customers' in the Group Accounts and risk weighted accordingly. The amount of the Group's loan assets funded through securitisation is shown in Section 6 – 'Asset encumbrance', where the amounts of retained notes are also analysed.

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

The Group has no exposures to purchased securitisation positions.

Derecognition of securitised assets

In 2019 the Group disposed of its remaining interest in a legacy securitisation transaction, Paragon Mortgages (No. 12) PLC ('PM12'). The Group's exposure was reduced to the point where the assets and liabilities of the deal were derecognised, and no amount is included in risk weighted assets in respect of this transaction.

The Group continues to administer PM12, but receives only an arm's length administration fee.

Further details of the transaction, including the assets and liabilities derecognised and the gain realised are set out in note 7 of the 2019 Group Accounts.

Further information

A more detailed desciption of the Group's securitisation activities and how they affect the Group's risk profile and contribute to its risk management objectives is given in note 57 to the Group Accounts.

Further information on the Group's securitisations, including average funding rates, outstanding balances and redemption dates, on a transaction by transaction basis is provided in note 29 to the Group Accounts and detailed information on each of the Group's public securitisation transactions is published in the 'Bond Investor Reporting' section of the Group's corporate website at **www.paragonbankinggroup.co.uk**.

11. Remuneration policies and practices

This section sets out
• The basis on which the Group is required to disclose information on remuneration under CRD IV
• Information on remuneration governance and practices
• Disclosures required on the remuneration of certain employees
• The location of further relevant disclosures on remuneration

Paragon Bank PLC is required to prepare Remuneration Code Pillar III disclosures in addition to the regulatory capital disclosures. As all of the information which must be included in the disclosures is also relevant to the Group as a whole, these disclosures have been included in this document instead of being presented separately.

PRA Supervisory Statement SS2/17 'Remuneration' (April 2017) categorises the Bank within proportionality level 3, as a bank with total assets of less than £15 billion, reducing the level of disclosures required by Part 8. This supervisory statement also sets out the PRA view that the requirement for remuneration disclosures applies only to CRR firms directly.

This statement was updated in December 2020, after the reporting date, reducing the threshold level to £13 billion and therefore the Bank will be categorised within proportionality level 2 for the purposes of reporting in future.

The directors of the Company also constitute the Board of Directors of the Bank and the members of its Remuneration Committee comprise the Remuneration Committee of the Bank.

Governance

The Board of Directors of the Bank has delegated the responsibility for oversight of its remuneration policy and the remuneration decision making process to its Remuneration Committee.

The Remuneration Committee comprised the Chair of the Board and three independent non-executive directors at the year-end and was chaired by one of the independent non-executive directors. The terms of reference for the Remuneration Committee have been approved by the Bank's Board of Directors. The Remuneration Committee's mandate is to:

1. Determine remuneration policy in relation to fixed and variable pay for employees
2. Ensure that executive directors and senior employees of the Bank are fairly rewarded for their individual contributions to overall performance, having regard to the importance of retention, motivation, risk appetite and achievement of good customer outcomes. The Group's approach to remuneration reflects its culture, vision and values and supports its purpose whilst being aligned to the long term interests of the Group
3. Apply the EBA Guideline 5.2 to determine which employees are Remuneration Code Staff ('Code Staff') for the purposes of the Remuneration Code. The Bank considers the following to be Code Staff:
    i. Executive directors of the Bank
    ii. Independent non-executive directors of the Bank
    iii. Employees performing selected roles which have significant influence on the firm's risk profile ('Material Risk Takers' or 'MRT') including selected control functions, as detailed under the Senior Managers and Certification Regime ('SMCR'); either requiring regulatory approval as holding a Senior Management Function ('SMF') role or included in the Certification Regime
4. Determine levels of fixed and variable pay for individual Code Staff and, as appropriate, for certain schemes, consider the application of malus and clawback
5. Ensure that its decisions are consistent with an assessment of the Bank's financial condition and future prospects and in the interests of its shareholders and other stakeholders
6. Monitor that the Bank is compliant with the requirements of the PRA / FCA's Remuneration Code

As required by UK legislation applying to large subsidiary entities, the Bank has, during the financial year ended 30 September 2020, adopted the UK Corporate Governance Code as its governance code, so far as this can be applied to a subsidiary company. A Corporate Governance Statement regarding the Bank's compliance with the Code, including those aspects relating to remuneration, can be found in the Directors' Report in the Annual Report and Accounts of Paragon Bank PLC for the financial year ended 30 September 2020.

The directors of the Company also comprise the Board of the Bank and each of the Bank's board committees has the same membership as the corresponding committee in the Company.

As the Bank's governance and remuneration structures operate in parallel with the Group as a whole, more detail on these matters can be found in the Group Accounts, where Section B2 describes Code compliance and Section B7 sets out the structure and application of remuneration arrangements.

Remuneration Policies

In addition to the overarching remuneration policy set out in the Group Accounts, the Group also has in place an internal remuneration policy. This internal policy ensures compliance with PRA / FCA remuneration requirements across the Group, as appropriate to the levels of seniority and consequently different levels of overall remuneration of different members of staff. This policy provides no greater level of benefit nor any lower level of risk tolerance than the overarching remuneration policy. This policy is reviewed and approved by the Remuneration Committee at least on an annual basis.

An example of the differing impact of the remuneration policies at different levels of seniority is the requirement for an additional two-year holding period in respect of PSP awards granted to executive directors since July 2020. Other employees in receipt of such awards remain subject only to the three year performance period.

The remuneration policies of the Group (being the policy detailed in section B7.3 of the Group Accounts, within the Directors Remuneration Report; the internal remuneration policy; and various sub-policies, including that relating to the profit related pay paid to the majority of the Group's employees (excluding the executive directors, members of the Executive Committee and employees at director / head of function level)) are subject to annual review. This review is required by regulation and assesses the compliance level of the Group's policies against the remuneration regulations of the PRA and FCA. It is undertaken by the Group's Internal Audit function and the outcome of the review is considered by the Remuneration Committee, which ensures that any steps necessary to maintain compliance are taken.

Advisors

During the year, the Remuneration Committee considered advice from:

- Deloitte LLP ('Deloitte') who were appointed as the Committee's independent advisor in February 2016 following a review process. Deloitte is a member of the Remuneration Consultants Group and as such voluntarily operates under its Code of Conduct in relation to executive remuneration in the UK. This supports the Committee's view that all advice received during the year was objective and independent

  The total fees paid to Deloitte for advice to the Committee during the year amounted to £140,340 (including VAT). Deloitte provided other professional services to the Group during the year including share scheme and tax advice, regulatory support, customer contact support, securitisation and co-sourced internal audit services

  The Committee was comfortable that the Deloitte engagement partner and team providing remuneration advice to the Committee did not have any connections with the Group or any individual director that might impair their independence and objectivity

- The CEO, the Chair of the Risk and Compliance Committee, the People Director, CRO and the Director of External Relations in determining remuneration for the year for executive directors and senior management

Link between pay and performance

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

Fixed pay (salary and benefits) is primarily set considering market rates and benchmarks as appropriate. Variable pay, which comprises an annual bonus and longer-term awards under share-based remuneration plans, is determined via a combination of long-term performance measures and individual performance ratings. Annual bonuses are generally paid in cash with a partial deferral in shares for executive directors, but deferral in part or in full may be required at the Committee's discretion for any employee.

Long-term business performance measures

The business performance measures which are used to determine vesting levels for the long-term incentive schemes, operated and provided by the Group, are summarised in note 52 of the Group Accounts and, for each grant, described in more detail in the Directors Remuneration Report for the year of award and the year of vesting.

Section B7.2.2 of the Group Accounts sets out the performance measures relating to awards granted in July 2020 and those granted in December 2017 which vested in respect of the year.

Individual performance ratings

Individual performance ratings are part of the annual review process and reflect individual contribution against personal objectives. For executive directors these objectives are described in the Directors' Remuneration Report in the Group Accounts (Section B7.2.2). Appropriate risk conduct is reflected in the annual performance objectives, and subsequent rating of the employee.

Other information

The pension arrangements across the Group include a defined benefit scheme, which has no discretionary pension benefits attached to it.

The Group has in place arrangements to ensure that personal investment strategies (as defined by the regulations) are not used by employees to undermine the risk alignment effects embedded in remuneration arrangements.

Variable remuneration is not paid through vehicles or methods that could lead to non-compliance with the Group's remuneration policies.

Aggregate quantitative information on remuneration

Year ended 30 September 2020

	Senior Management*	**Other MRT****	**Totals**
Number of Code Staff	**18**	**42**	**60**
Remuneration	**£000**	**£000**	**£000**
Fixed remuneration	**3,204**	**5,671**	**8,875**
Variable remuneration – cash‡	**2,933**	**3,037**	**5,970**
Cash paid in year	**6,137**	**8,708**	**14,845**
Variable remuneration - deferred in shares†	**2,573**	**2,496**	**5,069**
Total deferred in current year	**2,573**	**2,496**	**5,069**
Total remuneration	**8,710**	**11,204**	**19,914**

Year ended 30 September 2019

	Senior Management*	Other MRT**	Totals
Number of Code Staff	15	36	51
Remuneration	£000	£000	£000
Fixed remuneration	2,874	4,966	7,840
Variable remuneration – cash‡	2,840	2,085	4,925
Cash paid in year	5,714	7,051	12,765
Variable remuneration - deferred in shares†	2,883	2,822	5,705
Total deferred in current year	2,883	2,822	5,705
Total remuneration	8,597	9,873	18,470

Notes to the remuneration table

The number of Code Staff represents the number of persons who held a regulatory authorised role at any point in the year. Code staff include six independent non-executive directors (2019: four), the independent Chair of the Board and senior business, risk, compliance and control personnel. Code staff work across all business areas and therefore it is not appropriate to present a split of this information by business area.

* Senior management are defined as those staff who hold an approved SMF role under the SMCR.

** Other MRT are defined as other employees whose roles which fall within the Certification Regime under the SMCR.

‡ Variable remuneration paid in cash relates to bonuses and similar payments paid during the year, rather than those paid in respect of the year. Thus annual bonuses, which are paid after the end of the year, are included in cash paid in the following year's disclosures.

† Share based remuneration is valued on the basis of the market value of shares granted at the date of grant. No account is taken of any vesting conditions attaching to the awards.

Further information

Information on the remuneration of the directors and senior personnel of the Group is contained in the Directors' Remuneration Report presented as Section B7 of the Group Accounts. This report includes:

- Details of the operation of the Remuneration Committee, including its membership and the number of meetings held
- The design of variable remuneration, including share based awards, and the vesting and deferral criteria applied
- Details of the Group's external advisers on remuneration
- The Group's remuneration policy summary. The full Policy Statement is contained in the Group's 2019 Annual Report and Accounts, a copy of which can be found at **www.paragonbankinggroup.co.uk**

In addition, a copy of the Committee's terms of reference can be found at **www.paragonbankinggroup.co.uk**.

Note 52 to the Group Accounts contain details of the Group's long-term share-based remuneration arrangements, including summarised performance conditions. Note 53 to the Group Accounts describes the pension arrangements applicable to the Group's employees.

Statutory disclosures relating to the governance arrangements of Paragon Bank PLC as a stand-alone entity can be found in the Directors' Report of its Annual Report and Accounts for the year ended 30 September 2020, which can be found on the on the Investor Relations section of the Group's website.

In addition, a copy of the terms of reference of the Remuneration Committee can be found in the Corporate Governance section of the Group's website at **www.paragonbankinggroup.co.uk**.

12. Glossary

This section sets out
• A listing of defined terms used in the document.

ABS	Asset Backed Securities
ALCO	Asset and Liability Committee
AT1	Additional Tier 1
BBLS	Bounce Back Loan Scheme
BCBS	Basel Committee on Banking Supervision
BIA	Basic Indicator Approach
BTL	Buy-to-let
CBILS	Coronavirus Business Interruption Loan Scheme
CC	Credit Committee
CCC	Customer and Conduct Committee
CCP	Central Clearing Counterparty
CCoB	Capital Conservation Buffer
CCyB	Counter Cyclical Buffer
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
Code Staff	Remuneration Code Staff
CQS	Credit Quality Step
CRD	Capital Requirements Directive
CRD IV	Capital Requirements Directive IV
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CTRF	Contingent Term Repo Facility
Deloitte	Deloitte LLP
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Loss
EIR	Effective Interest Rate
ERC	Executive Risk Committee
ERCs	Estimated Remaining Collections
ESOP	Employee Share Ownership Plan
EU	European Union
EV	Economic Value
FCA	Financial Conduct Authority
FLA	Finance and Leasing Association
FLS	Funding for Lending Scheme
FPC	Financial Policy Committee (of the Bank of England)
FRN	Floating Rate Note
FSCS	Financial Services Compensation Scheme
Fully Loaded Basis	Calculated as if IFRS 9 transitional reliefs were not available
FX	Foreign Exchange
GDP	Gross Domestic Product
Group Accounts	Annual Report and Accounts of Paragon Banking Group PLC for the year ended 30 September 2020
G-SII	Global Systematically Important Institution
HQLA	High Quality Liquid Assets
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Individual Capital Requirement
IFRS	International Financial Reporting Standard(s)
ILAAP	Internal Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance
ILTR	Bank of England Indexed Long-Term Repo scheme
IMV	Independent Model Validation
IRB	Internal Ratings Based

IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LOG	Liquidity Outlook Group
LTGDV	Loan to Gross Development Value
LTV	Loan to value
MCR	Minimum Capital Requirement
MGF	Model Governance Framework
MRC	Model Risk Committee
MRG	Model Risk Group
MRT	Material Risk Taker
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
OLAR	Overall Liquidity Adequacy Requirement
ORC	Operational Risk Committee
O-SII	Other Systematically Important Institution
Part 8	Part 8 of the CRR
PD	Probability of Default
Performance ExCo	Executive Performance Committee
PFE	Potential Future Exposure
PM12	Paragon Mortgages (No. 12) PLC
POCI	Purchased or Originated Credit Impaired
Portfolio Quality	Average risk weightings applied to portfolios
Portfolio Size	Unweighted value of portfolios
PRA	Prudential Regulation Authority
RCC	Risk and Compliance Committee
Regulatory minimum / maximum	Where applicable, the minimum or maximum levels set by the PRA, FCA or other regulatory bodies
RICS	Royal Institution of Chartered Surveyors
Risk appetite	The maximum level of risk the Group is prepared to take to meet its strategic objectives
Risk appetite limit	The level of risk which, if breached, would require immediate corrective action and escalation to the RCC or Board
Risk appetite target	The level at, or range within, which the Group would, in normal circumstances, wish to operate
Risk appetite trigger	The level at which escalation will occur to the next RCC because the risk profile is sufficiently close to the risk appetite limit to warrant corrective actions being considered
Risk capacity	The maximum level of risk at which the Group can operate whilst remaining within the constraints implied by capital and funding needs and the obligations to its stakeholders
Risk profile	The Group's entire risk landscape reflecting the nature and scale of its risk exposures aggregated within and across each relevant risk category
RoR	Receiver of Rent
RP	Recovery Plan
RWA	Risk Weighted Assets
SA	Standardised Approach
SICR	Significant Increase in Credit Risk
SMCR	Senior Management and Certification Regime
SME	Small and/or Medium Sized Enterprise
SMF	Senior Management Functions
SONIA	Sterling Overnight Index Average
SPV	Special Purpose Vehicle
SREP	Supervisory Review and Evaluation Process
TFS	Term Funding Scheme
TFSME	Term Funding Scheme for SMEs
The 2018 Code	The 2018 UK Corporate Governance Code
The Bank	Paragon Bank PLC
The Company	Paragon Banking Group PLC
The Framework	Group Corporate Governance Policy Framework
The Group	Paragon Banking Group PLC and all its subsidiary entities
The Plan	The defined benefit pension plan operated by the Group
TRC	Total Regulatory Capital
TRE	Total Risk Exposure
UK	United Kingdom
UK Basis	The Group's leverage exposure on the basis set out by the PRA
UKF	UK Finance
VAT	Value Added Tax
Wrong Way Risk	Risk arising either due to a material positive correlation between collateral and counterparty or arising due to counterparty credit risk

Appendix A

Own funds disclosures

Main features of capital instruments

Presented in accordance with Annex II of Commission Implementing Regulation (EU) No 1423/2013.

		1	2
		EQUITY	**2016 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 XS1482136154
3	Governing law(s) of the instrument	England and Wales	England and Wales
REGULATORY TREATMENT			
4	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 and (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 (currency in million, as most recent reporting date)	£329.9m	£150.0m
9	Nominal amount of instrument	£261.6m	£150.0m
9a	Issue price	Nominal value £1 †	Par
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 *	9 September 2016
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	9 September 2026
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Callable by issuer on 9 September 2021
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	7.25%
19	Existence of a dividend stopper	N/A	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
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
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

† 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 website **www.paragonbankinggroup.co.uk/investors**.

Own funds disclosure

Presented in accordance with Annex IV from the Commission Implementing Regulation (EU) No 1423/2013.

		2020 £m	2019 £m	REGULATION (EU) NO 575/2013 ARTICLE REFERENCE
COMMON EQUITY TIER 1 (CET1) CAPITAL: INSTRUMENTS AND RESERVES				
1	Capital instruments and the related share premium accounts	330.5	329.9	26 (1), 27, 28, 29
	Of which: ordinary shares	330.5	329.9	EBA list 26 (3)
2	Retained earnings	880.7	835.9	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	(55.2)	(57.4)	26 (1)
3a	Funds for general banking risk	-	-	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	-	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	-	-	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	(36.4)	(35.8)	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,119.6**	**1,072.6**	**Sum of rows 1 to 5a**

		2020 £m	2019 £m	REGULATION (EU) NO 575/2013 ARTICLE REFERENCE
COMMON EQUITY TIER 1 (CET1) CAPITAL: REGULATORY ADJUSTMENTS				
7	Additional value adjustments (negative amount)	(0.6)	(0.7)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(170.1)	(171.1)	36 (1) (b), 37
9	Empty set in the EU			
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) are met) (negative amount)	-	-	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	-	-	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	-	36 (1) (d), 40, 159
12a	IFRS 9 transitional adjustment to CET1	42.3	21.2	
13	Any increase in equity that results from securitised assets (negative amount)	-	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	-	-	33 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	-	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 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)	-	-	36 (1) (g), 44
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)	-	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
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)	-	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250% where the institution opts for the deduction alternative	-	-	36 (1) (k)
20b	Of which: qualifying holdings outside the financial sector (negative amount)	-	-	36 (1) (k) (i), 89 to 91
20c	Of which: securitisation positions (negative amount)	-	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	Of which: free deliveries (negative amount)	-	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the condition in Article 38 (3) are met (negative amount))	-	-	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	-	-	48 (1)

		2020 £m	2019 £m	REGULATION (EU) NO 575/2013 ARTICLE REFERENCE
23	Of which: direct and indirect holding by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-	36 (1) (i), 48 (1) (b)
24	Empty set in the EU			
25	Of which: deferred tax assets arising from temporary differences	-	-	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	-	-	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-	36 (1) (i)
27	Qualifying AT1 deductions that exceed the AT1 Capital of the institution (negative amount)	-	-	36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(128.4)**	**(150.6)**	**Sum of rows 7 to 20a, 21, 22 and 25a to 27**
29	**Common Equity Tier 1 (CET1)**	**991.2**	**922.0**	**Row 6 minus row 28**
ADDITIONAL TIER 1 (AT1) CAPITAL INSTRUMENTS				
30	Capital instruments and the related share premium accounts	-	-	51, 52
31	Of which: classified as equity under applicable accounting standards	-	-	-
32	Of which: classified as liabilities under applicable accounting standards	-	-	-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	-	486 (3)
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	-	-	85, 86
35	Of which: instruments issued by subsidiaries subject to phase out	-	-	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**	**-**	**Sum of rows 30, 33 and 34**
ADDITIONAL TIER 1 (AT1) CAPITAL: REGULATORY ADJUSTMENTS				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	-	52 (1) (b), 56 (a), 57
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)	-	-	56 (b), 58
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)	-	-	56 (c), 59, 60, 79
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)	-	-	56 (d), 59, 79
41	Empty set in the EU			
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-	56 (e)

		2020 £m	2019 £m	REGULATION (EU) NO 575/2013 ARTICLE REFERENCE
43	**Total regulatory adjustments to Additional Tier 1 (AT1) Capital**	-	-	**Sum of rows 37 to 42**
44	**Additional Tier 1 (AT1) capital**	**-**	**-**	**Row 36 minus row 43**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**991.2**	**922.0**	**Sum of row 29 and row 44**
TIER 2 (T2) CAPITAL: INSTRUMENTS AND PROVISIONS				
46	Capital instruments and the related share premium accounts	150.0	150.0	62, 63
47	Amount of qualifying items referred to in article 484 (5) and the related share premium accounts subject to phase out from T2	-	-	486 (4)
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	-	-	87, 88
49	Of which: instruments issued by subsidiaries subject to phase out	-	-	486 (4)
50	Credit risk adjustments	-	-	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustments**	**150.0**	**150.0**	
TIER 2 (T2) CAPITAL: REGULATORY ADJUSTMENTS				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-	63 (b) (i), 66 (a), 67
53	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)	-	-	66 (b), 68
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in these entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	66 (c), 69, 70, 79
55	Direct and indirect 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)	-	-	66 (d), 69, 79
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	**-**	**Sum of rows 52 to 56**
58	**Tier 2 (T2) capital**	**150.0**	**150.0**	**Row 51 minus row 57**
59	**Total capital (TC = T1 + T2)**	**1,141.2**	**1,072.0**	**Sum of row 45 and row 58**
60	**Total risk weighted assets**	**6,948.1**	**6,723.8**	
CAPITAL RATIOS AND BUFFERS				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.3%	13.7%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	14.3%	13.7%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	16.4%	15.9%	92 (2) (c)

		2020 £m	2019 £m	REGULATION (EU) NO 575/2013 ARTICLE REFERENCE
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	10.5%	11.5%	CRD 128, 129, 130, 131, 133
65	Of which: capital conservation buffer requirement	2.5%	2.5%	
66	Of which: countercyclical buffer requirement	0.0%	1.0%	
67	Of which: systemic risk buffer requirement	-	-	
67a	Of which: Global Systematically Important Institution (G-SII) or Other Systematically Important Institution (O-SII) buffer	-	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.3%	5.7%	CRD 128
AMOUNTS BELOW THE THRESHOLDS FOR DEDUCTION (BEFORE RISK WEIGHTING)				
72	Direct and indirect holdings of the capital 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)	-	-	36 (1) (h), 46, 45, 56 (c), 59, 60, 66 (c), 69, 70
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 10% threshold and net of eligible short positions)	-	-	36 (1) (i), 45, 48
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	-	36 (1) (c), 38, 48
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2 36 (1) (C), 38, 48				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-	62
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2014 AND 1 JAN 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements	-	-	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements	-	-	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements	-	-	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	484 (5), 486 (4) & (5)

Appendix B

Leverage ratio disclosures

Presented in accordance with Annex 1 of the Commission Implementing Regulation (EU) 2016/200.

CRR Leverage Ratio

Reference Date	30 September 2020
Entity name	Paragon Banking Group PLC
Level of application	Consolidated

Table LRSum: Summary reconciliation of assets and leverage ratio exposures

		APPLICABLE AMOUNT	
		2020 £m	2019 £m
1	Total assets as per published financial statements	15,505.5	14,395.5
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-	-
4	Adjustments for derivative financial instruments	92.3	120.0
5	Adjustment for securities financing transactions (SFTs)	-	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	175.3	164.2
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-	-
7	Other adjustments	(127.8)	(145.3)
8	**Leverage ratio total exposure measure**	**15,645.3**	**14,534.4**

Table LRCom: Leverage ratio common disclosure

		CRR LEVERAGE RATIO EXPOSURES	
		2020 £m	2019 £m
ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	15,042.2	13,803.1
2	(Asset amounts deducted in determining Tier 1 capital)*	(127.8)	(145.3)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**14,914.4**	**13,657.8**
DERIVATIVE EXPOSURES			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	463.3	592.4
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	92.3	120.0
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivatives exposures (sum of lines 4 to 10)**	**555.6**	**712.4**
SFT EXPOSURES			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	-	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**-**	**-**
OTHER OFF-BALANCE SHEET EXPOSURES			
17	Off-balance sheet exposures at gross notional amount	949.1	903.4
18	(Adjustments for conversion to credit equivalent amounts)	(773.8)	(739.2)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**175.3**	**164.2**
EXEMPTED EXPOSURES IN ACCORDANCE WITH ARTICLE 429(7) AND (14) OF REGULATION (EU) NO 575/2013 (ON AND OFF BALANCE SHEET)			
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-

		CRR LEVERAGE RATIO EXPOSURES	
		2020 £m	2019 £m
CAPITAL AND TOTAL EXPOSURE MEASURE			
20	Tier 1 capital	991.2	922.0
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**15,645.3**	**14,534.4**
LEVERAGE RATIO			
22	**Leverage ratio**	**6.3%**	**6.3%**
CHOICE ON TRANSITIONAL ARRANGEMENTS AND AMOUNT OF DERECOGNISED FIDUCIARY ITEMS			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-	-

* includes intangible assets and impact of IFRS 9 transitional relief

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFT and exempted exposures)

		CRR LEVERAGE RATIO EXPOSURES	
		2020 £m	2019 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	14,914.4	13,657.8
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures, of which:	14,914.4	13,657.8
EU-4	Covered bonds	-	-
EU-5	Exposures treated as sovereigns	1,652.2	828.0
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	21.0	23.5
EU-7	Institutions	391.4	481.1
EU-8	Secured by mortgages of immovable properties	10,843.2	10,399.0
EU-9	Retail exposures	786.2	865.9
EU-10	Corporate	240.4	252.2
EU-11	Exposures in default	131.8	139.0
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	848.2	669.1

Table LRQua: Free form text boxes for disclosure on quantitative items

1	Description of the processes used to manage the risk of excessive leverage	Risk of excessive leverage is the risk that arises through maintaining an inappropriate leverage ratio or mismatches between assets and obligations. This risk is not considered significant for the reasons considered below. The current structure of the balance sheet returns a high leverage ratio. The Group's leverage ratio has remained well in excess of the minimum 3% set out in the CRR 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.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	Included in Section 4.

Appendix C

IFRS 9 Transitional Arrangements

Presented in accordance with Annex I of the EBA Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01) published on 16 January 2018 as amended on 10 November 2020 (by EBA/GL/2020/12) in response to the Covid-19 pandemic.

Quantitative template

		APPLICABLE AMOUNT	
		2020 £m	2019 £m
AVAILABLE CAPITAL (AMOUNTS)			
1	Common Equity Tier 1 (CET1) capital	991.2	922.0
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	948.9	900.8
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	991.2	922.0
3	Tier 1 capital	991.2	922.0
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	948.9	900.8
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	991.2	922.0
5	Total capital	1,141.2	1,072.0
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,098.9	1,050.8
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	1,141.2	1,072.0
RISK-WEIGHTED ASSETS (AMOUNTS)			
7	Total risk-weighted assets	6,948.1	6,723.8
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,905.8	6,713.3
CAPITAL RATIOS			
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.3%	13.7%
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	13.7%	13.4%
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	14.3%	13.7%
11	Tier 1 (as a percentage of risk exposure amount)	14.3%	13.7%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.7%	13.4%
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	14.3%	13.7%

		APPLICABLE AMOUNT	
		2020	2019
CAPITAL RATIOS			
13	Total capital (as a percentage of risk exposure amount)	16.4%	15.9%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.9%	15.7%
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	16.4%	15.9%
LEVERAGE RATIO			
15	Leverage ratio total exposure measure	13,993.1	13,706.4
16	Leverage ratio	7.1%	6.7%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.8%	6.6%
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	7.1%	6.7%

Lines 2, 4, 6, 10, 12, 14 and 17 are calculated as if the relief set out in Article 468 had been applied (although this does not impact on the Group's measures), but not the IFRS 9 transitional relief.

Lines 2a, 4a, 6a, 10a, 12a, 14a and 17a are calculated on the basis that IFRS 9 transitional arrangements had been applied, but not the relief set out in Article 468.

There are therefore, strictly, no lines which correspond to the fully loaded basis described earlier in the document.

Qualitative information

Narrative disclosures in respect of the reliefs applied by the Group in respect of IFRS 9 transition under Article 472a are set out in Section 4. This section also includes the discussion of movements in these metrics required by the guidelines.

The Group has no assets carried at Fair Value through Other Comprehensive Income and therefore the relief set out in Article 468 to such assets is not applicable to it.

Appendix D

Countercyclical buffer disclosures

The Group has not presented the template analysing its firm specific countercyclical buffer, as required by Annex I of the Commission Delegated Regulation (EU) 2015/1555, as all of its credit exposures are within the UK and therefore only the CCyB set by the FPC applies to it.

Appendix E

LCR common disclosure template

Presented in accordance with Annex II of the EBA Guidelines on LCR Disclosure (EBA/GL/2017/01) published on 8 March 2017.

Template EU LIQ1

		APPLICABLE AMOUNT	
		2020 £m	2019 £m
21	Liquidity buffer	1,074.8	921.1
22	Total net cash outflows	619.1	641.1
23	Liquidity Coverage Ratio	176%	144%

Amounts presented in the table are the averages of the twelve month end amounts in the reporting period.

Appendix F

Loans provided under public guarantees

This disclosure is presented on a voluntary basis in accordance with PRA "Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to Covid-19 crisis" issued with the "Statement by the PRA on EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 outbreak" issued on 28 July 2020.

		A	B	C	D
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			Of which: forborne	Public guarantees received	Inflows to Non-performing exposures
	30 SEPTEMBER 2020	£m	£m	£m	£m
1	Newly originated loans and advances subject to public guarantee schemes	25.2	-	-	-
2	of which: Households	-			-
3	of which: Collateralised by residential immovable property	-			-
4	of which: Non-financial corporations	25.2	-	20.9	-
5	of which: Small and Medium-sized Enterprises	25.2			-
6	of which: Collateralised by commercial immovable property	-			-

All of the loans included above were issued under the UK Government CBILS and BBLS initiatives, described further in Section 5 above.

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