



GENDER PAY GAP REPORT 2017

Paragon Banking Group PLC

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Diversity amongst employees and management has been identified as a major issue facing the UK corporate sector, with various initiatives being introduced or developed in the past year. These include statutory gender pay gap reporting, the Hampton-Alexander Review on gender balance in FTSE leadership, and, specific to the financial services sector, the Women in Finance initiative.

Paragon Banking Group includes respect and fairness amongst its core values and as such welcomes these developments and their overall objective. It has been active in all these areas in the past year, recognising their importance to the development of its business.

As sponsor of the Group's Women in Finance project I am pleased to introduce this first gender pay gap report produced by the Group, presenting not only the information mandated by the UK Government, but also wider information and explanations covering performance and progress on diversity issues.

Gender diversity is an important element of the Group's people strategy and we are proud to have signed the Women in Finance Charter in November 2016. The Women in Finance Charter, which is sponsored by HM Treasury, is an initiative amongst financial services companies in the UK, aimed at promoting equality of opportunity in the workplace. The Group's first targets under the charter were published in January 2017, and progress against them is regularly monitored at Board level and by executive management. The first annual progress report was published in January 2018, and is discussed later in this report.

While we are pleased with the Group's progress so far, relative to other similar organisations, we recognise that there is still much work to do, and are confident that the measures we have put in place will help provide our people with the opportunities they deserve and the Group with the workforce it needs to achieve its strategic goals.

Richard J Woodman

Chief Financial Officer

26 March 2018

INTRODUCTION

Paragon Banking Group PLC and its subsidiary companies (together 'the Group') employs over 1,300 people, all based in the UK, with the largest number based at its head office in Solihull.

The welfare, development and engagement of the Group's employees are central to developing a strong culture, with employee capability and motivation acknowledged as being central to the delivery of the Group's strategy. Engagement levels are monitored through employee surveys. The most recent survey, carried out in November 2017, returned a response rate of 85% - 1,137 employees (previous survey: 91% - 919 employees) and an overall engagement score of 85% (previous survey: 86%) which compares favourably to the average of 82% in the financial services sector.

The Nomination Committee of the Board, comprising the Chairman, Chief Executive and four non-executive directors, has responsibility for supervising all the Group's internal and external initiatives on workforce and management diversity as well as succession planning. As such it reviews and considers performance in these areas and provides challenge to executive management.

Remuneration packages across the business are compliant with the UK's national minimum wage rates. In addition, the Group is an accredited employer with the Living Wage Foundation and first met this standard in June 2016. The independent Living Wage Foundation sets an hourly rate calculated according to the cost of living in the UK which is updated annually. The Living Wage for employees outside London is £8.75 per hour from November 2017 (£17,062 per annum based on a 37.5 hour working week). This is a higher rate than the government's National Living Wage. The Group supports the Living Wage Foundation's principle of a living wage being good for business, good for the individual and good for society and this is an important part of the Group's values and people strategy.

GENDER PAY GAP REPORTING

This year, for the first time, the UK Government has required all companies with more than 250 employees to report on their gender pay gap, in accordance with the 'Equality Act 2010 (Gender Pay Gap) Regulations 2017' ('the Regulations').

The Group has one subsidiary with more than 250 employees, Paragon Finance PLC ('Paragon Finance') and gender pay data for this company has been reported in accordance with the Regulations and is set out below marked 'Paragon Finance'. However, in keeping with the overall intent of gender pay reporting, and to provide better information for users, the Group has decided to also disclose its consolidated figures, shown below as 'Group'.

The Regulations require entities to publish information on

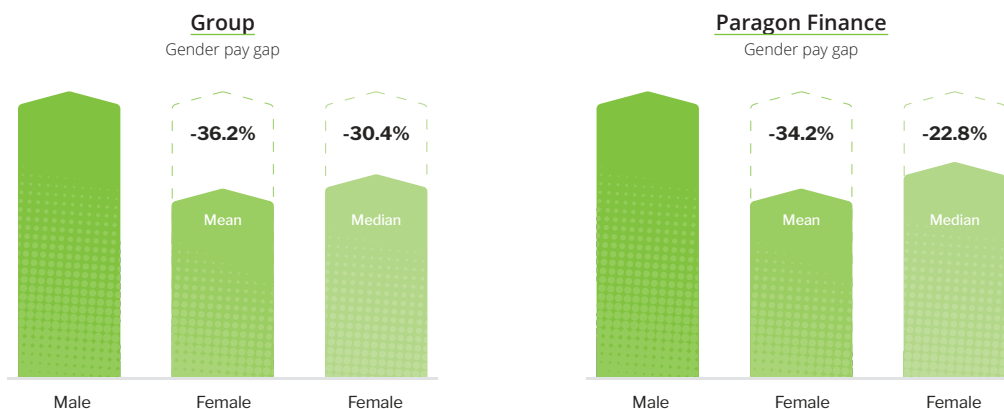
- Mean and median gender pay gaps
- The split of each pay quartile by gender
- The proportion of male and female employees receiving bonuses
- Mean and median gender bonus gaps

Gender pay gap

The gender pay gap is defined as the difference between the mean or median hourly rate of pay that male and female employees receive. A gender pay gap may exist as a result of the nature of the positions within an organisation held by male and female employees and does not necessarily indicate that men and women in similar positions are paid different amounts, which would contravene equal pay legislation.

The mean pay gap is the difference between average hourly earnings of men and women. The median pay gap is the difference between the midpoints in the ranges of hourly earnings of men and women. It takes all salaries in the sample, orders them from lowest to highest and selects the middle value.

These figures are provided in the charts below based on hourly rates of pay as at 5 April 2017, the 'Snapshot Date' specified in the Regulations. At that date Paragon Finance employed 74.4% of the Group's people. The remainder of the Group's employees worked for Paragon Bank PLC or Paragon Asset Finance Limited and its subsidiaries.



The median and mean pay gaps are in line with the 33.7% median pay gap and 34.8% mean pay gap for full-time employees in the financial services sector reported by the Office of National Statistics ('ONS') in their Annual Survey of Hours and Earnings published in October 2017. They are also broadly in line with those reported by the companies in the banking sector whose gender pay reports were available at the time this document was prepared. These entities' median gender pay gaps averaged around 30%, with their mean pay gaps generally a little higher. There was a wide range of gaps reported, reflecting, in part, the differing business models adopted.

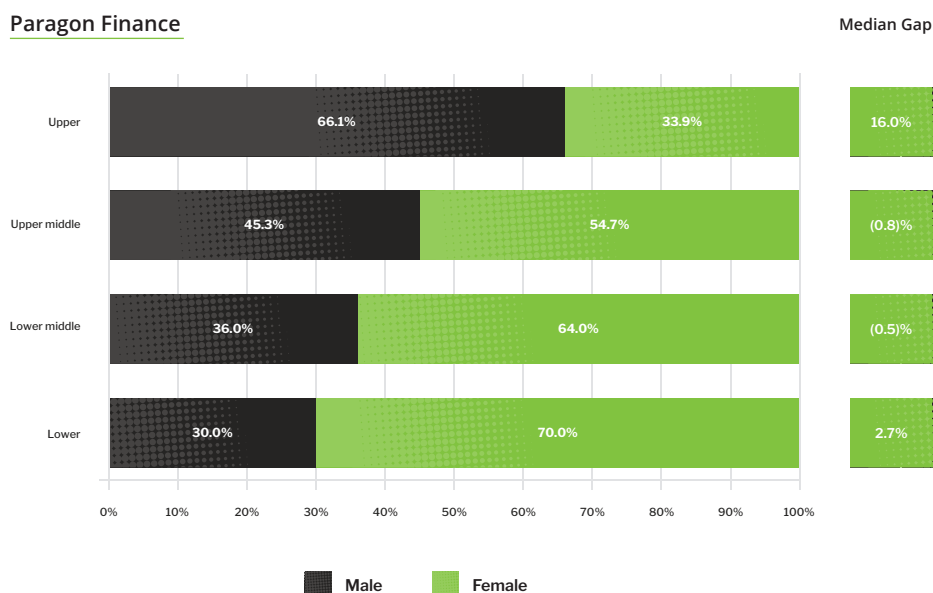
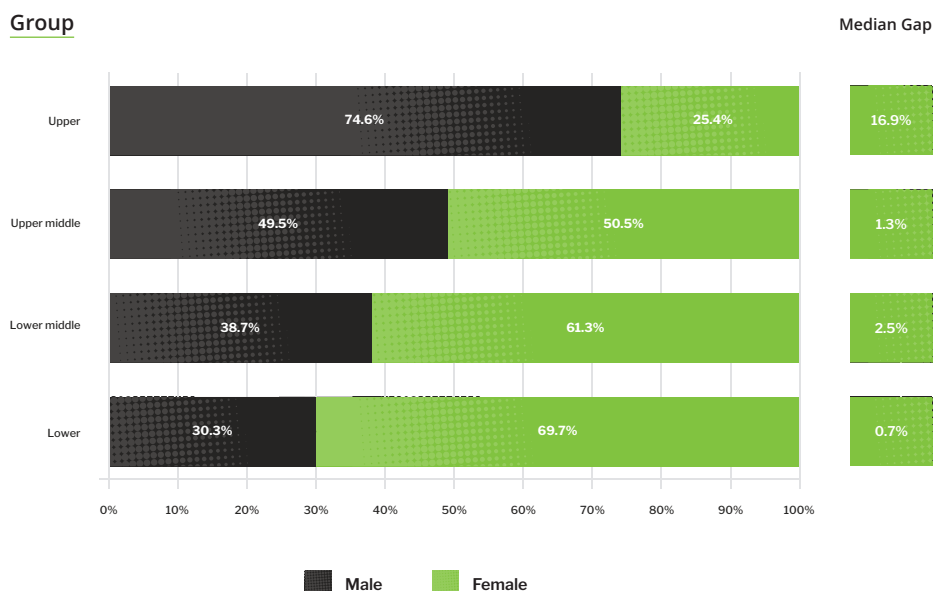
The calculation mandated by the Regulations takes no account of hours worked by employees in calculating averages. This gives the hourly rate of a part-time employee the same weight as a full-time person, despite the full-time person contributing more of the Group's labour. As more part-time working is available at lower levels and as flexible working has historically been more attractive to female employees, this tends to amplify the gender pay gap. This effect is recognised by the ONS, which reports data for full-time and part-time employees separately. Calculating the Group's gender pay gap for full-time employees only, the difference reduces to 28.9% for the median and 34.1% for the mean.

While there is a pay gap between female part-time and female full-time employees, with a median gap of 6.1% and a mean gap of 13.9%, which represents a narrower gap than that between full-time and part-time employees in the broader economy. This suggests that enhancing opportunities for flexible working within the Group, which is an objective under the Women in Finance initiative, has not been detrimental to women's hourly earnings.

The Group analyses gender pay gap data as part of the Women in Finance initiative. However, rather than the broad approach taken in the Regulations, it segments the workforce into groups of directly comparable positions to identify areas of concern and to determine what action might be required. While this work is at an early stage, the initial results do not suggest evidence of systematic gender bias. These results are discussed in more detail below.

Quartiles

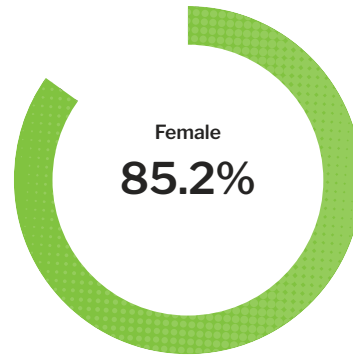
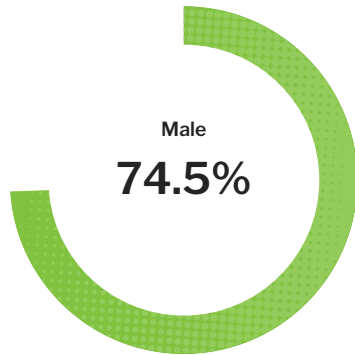
These charts show the gender split of employees grouped by hourly pay rates into four equally sized quartiles, including 317 employees each for the Group and 236 employees each for Paragon Finance. The upper quartile includes the highest paid employees, the lower quartile the lowest.



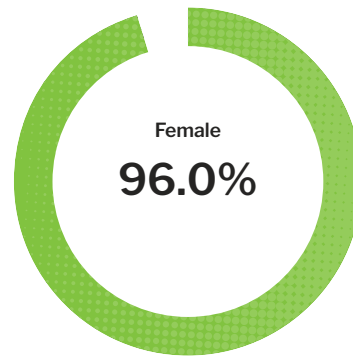
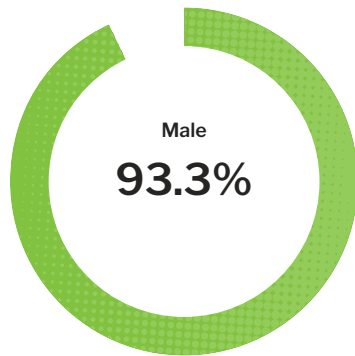
Bonuses

The charts below show the proportion of male and female employee numbers receiving a bonus in the year ended on the Snapshot Date. The statutory definition of bonus includes the annual profit related pay ('PRP') awards which are payable annually to all employees of Paragon Finance and Paragon Bank PLC, other than senior management, who were employed during the year concerned. These amounts are, therefore, paid to the vast majority of the Group's employees.

Group



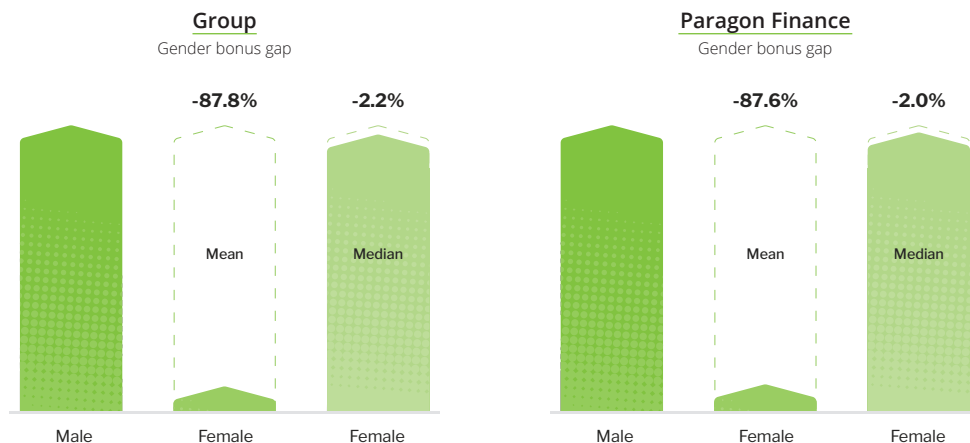
Paragon Finance



As well as the PRP awards, bonus payments include annual discretionary bonuses and share based awards. Share based awards, which have vesting conditions based on the Group's performance, are included in the calculation when they are exercised by the recipient, rather than when they are awarded.

They are valued, for the purpose of the Regulations, at their market value on exercise rather than at the date when they are awarded, which may be significantly different. The impact of these awards on the bonus gap, year-on-year, may be distorted by individuals' decisions to exercise, the amounts of awards vesting and the Group's share price.

The gender bonus gap, calculated on the basis set out in the legislation is set out below.



Analysis of median bonus between full-time and part-time employees indicates that the small gap shown is related almost entirely to hours worked, with the median bonus gap for full-time employees only reducing to 0.8%.

The difference between the mean and median bonuses reflects the impact of a very small number of bonus payments to executive directors and other very senior employees and the exercise of share based awards by these people. Details of the bonus arrangements of the three executive directors, who are all male, are given in the Directors' Remuneration Report in the Group's annual accounts. These awards represent the largest part of the bonuses in both the Group and Paragon Finance.

Only 149 of the Group's employees, all at senior levels, received bonuses in excess of £5,000 in the year. It is these awards which principally affect the bonus gap. Bonus for these employees will consist of their annual bonuses, awarded for the year ended 30 September 2016 and any share based awards exercised in the year, which will have been awarded at least three years earlier.

Amongst this group there are wide variances in the levels of bonus, arising from:

- Levels of seniority, as there are more males at the highest levels
- Differences in market expectations of levels of maximum bonus, compared to salary within different career paths, with roles directly responsible for profit generation commanding greater levels of bonus relative to salary than those in support functions
- Distribution of male and female employees between career paths, where, in common with much of the financial sector, senior female employees are concentrated, predominantly, in support areas
- Expectations of investors, which lead to executive director remuneration having a significantly higher proportion of variable elements than for other employees
- Differing levels of cash based and share based awards within variable remuneration, with the highest paid employees tending to have a higher proportion represented by share based awards
- Levels of exercise of share based awards, which is entirely at the discretion of the employees concerned and which may not take place regularly, year on year. This impacts particularly for the highest paid employees who have the greatest number of awards
- Share prices at the time of exercise of share based awards, especially for the highest paid. This is a particular issue for the Group, which has seen a significant increase in share price over recent years, causing the amounts reported to be much greater than the value of the awards at the time of grant
- Length of service, where employees with less than three years service will have no share based awards available for exercise in the period. This will create a lag between women reaching, or being appointed to, senior levels and this being fully represented in the bonus metric defined by the Regulations

The interrelationship of these factors creates a complex pattern overall. However, all awards of bonus within this group are considered individually at executive director level, with the awards of the most senior 70 employees being considered by the Remuneration Committee.

The Group is confident that bonuses awarded are justifiable on a case by case basis, taking into account roles, responsibilities, performance and market remuneration practice for individual positions. However, as part of its Women in Finance initiative it intends to consider whether this approach provides consistency across career paths.

WOMEN IN FINANCE CHARTER TARGETS

In January 2017 the Group published its five-year targets for its Women in Finance programme. The Group's intentions are to achieve these by January 2022. The Group's performance against these targets is reviewed regularly by Senior Management and the Nomination Committee, and progress reports are published annually on the Group's website.

The Women in Finance Charter requires businesses to set a target for female representation in senior management. The Group has chosen to set further targets to support its initiative. Progress against these targets to date is shown below.

Measure	Target	At 31 December 2017	Achieved
Female representation in Senior Management*	35%	29.2%	-
Additional targets:			
Females in workforce	50%	52.5%	✓
Females as a percentage of employees receiving management career development / leadership training	50%	58.8%	✓
Gender pay gap difference†	<8%	1.7%	✓
Managers from an ethnic minority background	10%	3.0%	-
Workforce on flexible working	10%	34.6%	✓
Flexible working available on a part-time basis	50%	53.8%	✓

*Senior Management is defined as being Executive Directors, Executive Committee members and their direct reports, in accordance with the recommendations in the Hampton-Alexander Report.

† The Group measures its gender pay gap internally by dividing its workforce into subsets based on their duties, skill-sets and responsibility levels. The headline measure quoted above is the weighted average of the median pay gaps in each subset.

The reduction in the measure quoted for female representation in senior management from the 31.4% reported in the year end accounts to 29.2% results from a reorganisation in reporting lines, as a result of which certain senior managers no longer report directly to an Executive Committee member and are hence excluded from the calculation. This reduced the total number of senior managers (as defined) from 51 to 48.

The measure of gender pay used for the purpose of the Group's Women in Finance targets differs from that set out in the Regulations, which were finalised after the targets were set. It is considered to be a more useful measure for the purposes of the initiative, highlighting those roles and areas of the business where particular attention may be required.

The gender pay metric summarised above is derived using subsets comprising 80% of the Group's workforce. The remaining 20% was made up of roles where all position holders were the same gender and employees whose roles had no direct comparators in the organisation.

Of this 80%, 74% of employees (59% of the total) were included in subsets where the median female pay was greater than the male equivalent or less than 8% below (the Group's target). 56% of the analysed employees were included in subsets where median female pay was greater than median male pay.

As part of the continuing Women in Finance initiative, further work will be done in the coming year to allocate the remaining 20% of the workforce to appropriate groups, as far as possible, and to investigate those sub-sets with the largest pay gaps in both directions.

The Group is pleased with the progress to date and will be working to ensure that all of its benchmarks are met by the target date of January 2022.

ACTIVITIES IN THE YEAR AND ACTION PLAN

The Group continues to analyse its gender pay data, overall, within business areas and by comparing similar positions across the business. Policies are in place to ensure equality of opportunity in recruitment, promotion and remuneration and the effectiveness of these is monitored on an ongoing basis.

The Nomination Committee, as the Board Committee responsible for diversity issues across the Group, oversees these policies and receives information on performance. It also supervises the Group's participation in external initiatives in the field, such as the Women in Finance Charter. It has reviewed this report and considered the information presented in it in the light of its understanding of the Group's employment and remuneration arrangements.

While the Group is confident that there is no systematic gender bias in its recruitment or remuneration practices, it is conscious of the underrepresentation of women at senior levels in the financial services sector and it anticipates that one of the effects of its Women in Finance initiative will be to erode the gender pay gap by increasing female representation at senior levels.

As part of the Women in Finance programme the Group has undertaken that it will:

- Review recruitment and selection practices and require improved gender diversity from search firms
- Deliver unconscious bias training
- Provide female career development and leadership training
- Identify female leaders and implement more mentoring opportunities
- Seek better gender balance in succession planning

To date the Group has:

- Reviewed recruitment and selection practices and now instructs search firms to provide improved gender diversity amongst candidates
- Begun to increase its focus on providing female career development and leadership training
- Commenced a programme to identify female leaders and potential leaders amongst the workforce, providing those individuals with more mentoring opportunities
- Conducted its first diversity survey amongst employees (discussed further below)

In March 2017, the Group conducted its first diversity survey, obtaining anonymous feedback from employees on their age, gender, ethnicity, sexual orientation, religious beliefs and disability. A positive response rate of 78% was achieved and, as expected, the survey illustrated the diversity of the Group's workforce. The results were reviewed at executive level and a number of actions were agreed in line with the Group's commitment to the Women in Finance Charter.

Over the coming year the Group will:

- Anonymise CVs before the initial internal screening process
- Deliver training on unconscious bias
- Continue to provide female career development, leadership training and increased mentoring opportunities
- Continue to identify female leaders
- Seek better gender balance in succession planning

CONFIRMATION STATEMENT

I confirm the accuracy of the information presented above in respect of Paragon Finance PLC required by regulation 2 of the Regulations.

Richard J Woodman
Director - Paragon Finance PLC
26 March 2018



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