



Paragon Banking Group PLC

Compliance with Article 96 of the Fourth Capital Requirements Directive

## Introduction

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. The Company controls a group of companies (together 'the Group') including a regulated bank, Paragon Bank PLC ('the Bank'). The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and the PRA. The Bank is registered on the Financial Services Register under the firm reference number 604551.

The Company is listed on the London Stock Exchange and is a member of the FTSE 250. Consequently, the disclosures in the Company's Annual Report and Accounts are made in accordance with applicable law and regulation including the requirements of the Companies Act 2006, Article 4 of the IAS Regulation, the UK Corporate Governance Code and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules.

Article 96 of the Capital Requirements Directive IV ('CRD IV'), as implemented in UK law by the regulations of the PRA and the FCA, states that institutions that maintain a website should explain on that website how they comply with the UK's implementation of Articles 88 to 95 of CRD IV.

Certain of the requirements of Article 96 are addressed in the Company's Annual Report and Accounts (required by UK legislation and regulation to report on legal/governance and accounting matters) and its Pillar III Disclosures (required by European Union regulation to report on risk and governance matters). Detail on where the information is located within these documents is set out in the remainder of this statement together with any additional relevant information.

The Bank is not a 'significant' firm nor has it received 'exceptional government intervention' as defined in the PRA's and FCA's regulations.

## Governance arrangements

The governance arrangements of the Company (and, as appropriate, the Bank) are described in 'Section B: Corporate Governance' of the Company's 2020 Annual Report and Accounts ('2020 ARA') (pages 70 to 148) as well as within Section 2 of the 2020 Pillar III Disclosures 2020 ('2020 Pillar III') (pages 7 to 11). Information on the governance of the Bank at a company level is set out in the Directors' Report on pages 24 to 33 of its 2020 Annual Report and Accounts (available from the Companies House website and also available on request from the Group via [company.secretary@paragonbank.co.uk](mailto:company.secretary@paragonbank.co.uk)). The Bank has applied the UK Corporate Governance Code, as appropriate for a subsidiary entity, during its financial year ended 30 September 2020.

In addition, reference should also be made to the following documents which are available on the Group's website ([www.paragonbankinggroup.co.uk](http://www.paragonbankinggroup.co.uk)) and updated from time to time. These documents contain further supporting detail on how compliance is effected:

- Matters Reserved for the Board
- Division of Responsibilities between the Chair, Chief Executive and Senior Independent Director
- Terms of Reference – Audit, Nomination, Remuneration and Risk and Compliance Committees
- Internal Audit Charter
- Women in Finance Charter and diversity targets (and the Group's gender pay gap report)

The operational structure of the Group is such that its internal control functions (being its Risk and Compliance and its Internal Audit functions) are independent from the business units they oversee and have appropriate authority for their roles. The Group's risk management framework is based on a three lines of defence model with the Risk and Compliance function forming the second line of defence and Internal Audit the third line of defence. This framework is detailed in Section B8 of the 2020 ARA with further information provided in Section 3 of the 2020 Pillar III (pages 12 to 34).

## Remuneration policies and practices

### Overarching remuneration policy

The Company and the Bank each have a Remuneration Committee which meet jointly throughout the financial year. The Committees have the same membership and Chair and are comprised of independent non-executive directors and the Chair of the Board. The Committees are chaired by an independent non-executive director.

Remuneration structures and policy in respect of the Company's and the Bank's executive directors, and the Group's senior management, are detailed in the Directors' Remuneration Report ('DRR'), Section B7 of the 2020 ARA (pages 106 to 133) and in Section 11 of the Group's 2020 Pillar III (pages 74 to 77). Consideration should also be given to notes 53 and 52 of the 2020 ARA (page 238 to 243) which provide information on the Group's pension obligations and share-based payment arrangements respectively. Reference should be made to the Company's 2019 Annual Report and Accounts which contains the overarching remuneration policy approved by shareholders in February

2020 (pages 113 to 123) and to the Company's and the Bank's Remuneration Committee Terms of Reference.

#### Internal remuneration policy

The remuneration policies applicable to the Company's and the Bank's executive and non-executive directors are set out in detail in the overarching policy described in the DRR. The application of this policy to other employees is governed by internal policies.

The Group's internal remuneration policy, a sub-policy of the overarching remuneration policy approved by shareholders, is reviewed and approved by the Remuneration Committee at least once a year. This policy is applicable to all employees below board level, including Executive Committee members, Material Risk Takers ('MRTs') and those working in internal control functions. The internal remuneration policy includes how such matters as the annual variable bonus plan, malus and clawback, anti-hedging requirements, guaranteed variable pay, and buy-outs operate for MRTs. Internal policies also govern the terms of engagement of external contactors and the basis of provision of on-site personnel by third party suppliers.

While guaranteed variable pay and buy-outs are permissible within the Group's remuneration policies, the circumstances in which either of these mechanisms would be used is limited and such payments would be made only in accordance with regulatory expectations and would require the prior approval of the Remuneration Committee.

#### Control functions

The remuneration of senior employees within control functions:

- a. is subject to the oversight of the Remuneration Committee
- b. is regularly benchmarked to ensure that employees are remunerated appropriately in comparison to external peers
- c. may include an annual bonus determined on the basis of the achievement of objectives linked to their operational role independent of the performance of the business areas the employees oversee.

Information regarding the operation and conditions of the Group's long-term incentive plan (the Paragon Performance Share Plan), which also forms part of the variable pay opportunity for this cohort of employees can be found in the DRR, Section B7 of the 2020 ARA.

#### Conflicts of interest

The Group and the Board have in place policies on the management and disclosure of potential conflicts of interest which operate together with the specific requirements of the Remuneration Committee regarding conflicts of interest noted in its Terms of Reference and the DRR and internal remuneration policy.

#### Annual review of remuneration policies

The remuneration policies of the Group are subject to an annual review. The scope of this review includes the overarching policy detailed in the DRR of the Company's 2019 Annual Report and Accounts, the DRR in the 2020 ARA, the internal remuneration policy and its 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). This review is required by regulation to determine the compliance level of the Group's policies against the remuneration regulations of the PRA and FCA and it is undertaken by the Group's Internal Audit function. The outcome of the review is considered by the Remuneration Committee which ensures that any necessary steps are taken to maintain compliance.

#### Country-by-Country reporting

This information is provided in the Company's Annual Report and Accounts. In the 2020 ARA this information is included in note 49 (page 231).

#### Disclosure of return on assets

This information is provided in note 34 'Capital Management' of the Bank's 2020 Annual Report and Accounts (page 94).



**PARAGON BANKING GROUP PLC**

51 Homer Road, Solihull, West Midlands B91 3QJ

Telephone: 0121 712 2323

[www.paragonbankinggroup.co.uk](http://www.paragonbankinggroup.co.uk)

Registered No. 2336032