

Paragon Banking Group PLC (“PBG”) &

Paragon Bank PLC (the “Bank”)

Terms of Reference: Remuneration Committee (the “Committee”)

Approved: 28 September 2023

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Section 1: Overview

1.1 Board approval and review

This revised version was approved by the Boards of each of PBG and the Bank on 28 September 2023. The Terms of Reference will be reviewed annually, or when required by changes to regulation/legislation.

1.2 Interpretation

- 1.2.1 The Boards and Committees of PBG and the Bank have identical membership and sit jointly on most occasions. Where a joint meeting takes place, these Terms of Reference shall apply. Where the Committee of PBG or the Bank sit separately these Terms of Reference shall apply to each Committee except where due to statute, regulation or other reasons considered appropriate by the non-executive directors they cannot or should not apply. On the date of adoption of these Terms of Reference all such items have been noted in Appendix 1 but they are not exclusive and can be amended from time to time on an ad hoc or continuous basis, separate to any agreement to amend the Terms of Reference, provided that a quorum of the relevant Board/Committee agrees and this derogation is minuted as such.
- 1.2.2 For the purpose of these Terms of Reference the term 'Group' shall mean, when the Committee is sitting as a joint Committee, PBG and its subsidiaries as defined by the Companies Act 2006. Should the Committee sit solely as a Committee of PBG then the same definition shall apply but when meeting as a Committee only of the Bank then this definition shall mean only the Bank and those subsidiaries of the Bank as defined by the Companies Act 2006.
- 1.2.3 For the purpose of these Terms of Reference the term 'Company' shall mean, when the Committee is sitting as a joint Committee, each of PBG and the Bank. Where the Committee is sitting as either a Committee of PBG or the Bank then it shall mean the relevant company only.
- 1.2.4 For the purpose of these Terms of Reference the term 'Board' shall mean, when the Committee is sitting as a joint Committee, the Boards of each of PBG and the Bank. Where the Committee is sitting as either a Committee of PBG or the Bank then it shall mean the relevant Board only.
- 1.2.5 For the purpose of these Terms of Reference the term 'Articles of Association' shall mean, when the Committee is sitting as a joint Committee, the articles of association of each of PBG and the Bank. Where the Committee is sitting as either a Committee of PBG or the Bank then it shall mean the articles of association of the relevant company only.
- 1.2.6 For the avoidance of doubt reference to shares and share schemes are to shares and schemes of PBG only.

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1 Role

The role of the Committee is to ensure that:

- 1.1 remuneration policy and practices across the Group are designed to support the Group’s strategy and promote long-term sustainable success, to promote sound and effective risk management, reward fairly and responsibly, with a clear link to corporate and individual performance, having regard to statutory and regulatory requirements; and
- 1.2 executive remuneration is aligned to company purpose and values and linked to delivery of the Company’s long-term strategy.

2 Authority

- 2.1 The Committee is a committee of the Board from which it derives its authority and to which it regularly reports.
- 2.2 The Committee has delegated authority from the Board in respect of the functions and powers set out in these Terms of Reference. The Committee may sub-delegate any or all of its powers and authority as it sees fit, including, without limitation, the establishment of sub-committees to analyse particular issues or themes and to report back to the Committee.
- 2.3 The Committee is concerned with the business of the whole Group and accordingly its authority extends to all relevant matters relating to the Group.
- 2.4 The Committee does not have any authority with respect to the remuneration of non-executive directors which is determined within the limits set in the Articles of Association by the Board of the Company and which shall be a matter for the Chair of the Board and the executive members of the Board.
- 2.5 The Committee has authority to investigate any matters within its responsibilities and to obtain such information as it may require from any director, officer or employee of the Group. No person shall be involved in any decision as to their own remuneration.
- 2.6 The Committee Chair is authorised to request remedial action be taken in relation to any matter, within the Committee’s Terms of Reference, which the Committee Chair considers has not been addressed promptly or sufficiently.
- 2.7 The Committee is authorised by the Board to obtain, at the Company’s expense, outside legal or other professional advice on any matters within its Terms of Reference. If the proposed professional advisor provides statutory audit or internal audit services to any part of the Group discussion shall be had with the Chair of the Audit Committee before the proposed appointment is agreed.
- 2.8 The Committee shall have the right to publish in the Company’s annual report details of any issues that cannot be resolved between the Committee and the Board.

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3 Relationship with other Committees

- 3.1 When appropriate, the views of the Audit Committee, Nomination Committee and Risk and Compliance Committee will be sought and taken into account when considering any matters detailed in these Terms of Reference which for the avoidance of doubt includes the determination of remuneration packages.
- 3.2 The Committee shall work and liaise as necessary with all other Board Committees in addition to the points noted above in order to fulfil its duties.

4 Membership

- 4.1 The Committee shall comprise at least three members, all of whom shall be independent non-executive directors (within the meaning of the UK Corporate Governance Code 2018 (the “Code”). Additionally, the Chair of the Board may serve on the Committee as a Committee member if he or she was considered by the Board to be independent on appointment to Chair of the Board. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Committee Chair. It is recognised that the number of independent members may fall below three for temporary periods due to departures pending new appointments.
- 4.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairs of the Audit and Risk and Compliance Committees (if they are not members of the Committee), Chief Executive, Chief Risk Officer, the People Director and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary.
- 4.3 Appointments to the Committee are made by the Board and shall be for a period of up to three years extendable by no more than two additional three-year periods, so long as members (other than the Chair of the Board, if he or she is a member of the Committee) continue to be independent.
- 4.4 The Board shall appoint the Committee Chair who shall be an independent non-executive director and who should have previously served on a remuneration committee for at least 12 months prior to appointment. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these Terms of Reference to be appointed to that position by the Board. The Chair of the Board shall not be the Committee Chair.
- 4.5 The Committee Chair shall review membership of the Committee annually, as part of the annual performance evaluation of the Committee.
- 4.6 Members shall have the appropriate knowledge and skills concerning remuneration practices and policies, including in relation to the alignment of remuneration to the Group’s risk profile.

5 Secretary

- 5.1 The Company Secretary, or his or her nominee, shall act as the Secretary of the Committee.

6 Quorum

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- 6.1 The quorum necessary for the transaction of business shall be two members.
- 6.2 Significant decisions such as the setting of long-term incentive opportunities for executive directors and senior management should, in all practical circumstances, be taken by the Committee as a whole.

7 Meetings

- 7.1 The Committee shall meet at least three times a year and otherwise as required.
- 7.2 Meetings of the Committee may be conducted when the members are physically present together or in the form of either video or audio conferences.

8 Notice of meetings

- 8.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of the Committee Chair or any of its members.
- 8.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person requested to attend and all other non-executive directors, normally no later than five days before the date of the meeting unless otherwise agreed. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time so far as practicable. Late papers will be accepted by agreement with the Committee Chair.

9 Minutes of meetings

- 9.1 The Secretary, or their nominated alternate, shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance and the existence of any conflicts of interest.
- 9.2 Draft minutes of Committee meetings shall be sent to the Committee Chair, normally no later than 10 working days after the meeting or as soon as practicable. Once finalised, draft minutes will be made available to all members of the Committee before formal approval at the next Committee meeting. Once approved, minutes should be made available to other members of the Board unless in the opinion of the Committee Chair it would be inappropriate to do so.

10 Shareholder engagement

- 10.1 The Committee Chair should attend the Annual General Meeting to answer any shareholder questions on the Committee’s responsibilities.
- 10.2 The Committee Chair should seek engagement with shareholders on significant matters related to the Committee’s areas of responsibility.

11 Duties

- 11.1 The Committee should carry out the duties detailed below for the Group as appropriate.
- 11.2 The Committee shall:

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- (a) determine and agree with the Board the policy for the remuneration and benefits, including pension rights and compensation payments, of the executive directors and set the remuneration for:
 - (i) the chair of the Company;
 - (ii) executive directors;
 - (iii) the Company Secretary; (iv) all Material Risk Takers (“MRTs”) as identified under the Remuneration Codes (excluding the non-executive directors); and
 - (v) the Director of Internal Audit, Chief Risk Officer.

Additional consultation shall be undertaken for these employees with, for the Director of Internal Audit, the Chair of the Audit Committee, and for the Chief Risk Officer, the Chair of the Risk and Compliance Committee;

- (b) in discharging this responsibility, the Committee shall take into account all factors which it deems necessary including:
 - (i) all relevant legal and regulatory requirements, the provisions and recommendations of the Code and any associated guidance;
 - (ii) the need to promote the long-term sustainable success of the Company without paying more than is necessary, having regard to the views of shareholders and other stakeholders as well as the public interest, and ensuring that executive directors and senior managers are rewarded in a fair and responsible manner and are provided incentives to encourage enhanced performance and are rewarded for their individual contributions;
 - (iii) the business strategy of the Company and how the policy reflects and supports the long-term strategy, objectives, values and long-term interests of the Company;
 - (iv) that performance conditions, including non-financial metrics when appropriate, should be relevant, stretching, fair and designed to promote the success of the Group;
 - (v) that remuneration incentives should have regard to and be compatible with the risk appetite, policies and systems of the Group;
 - (vi) the need to reflect current and future financial and non-financial risk exposures to the Group when determining variable remuneration; and
 - (vii) the need to reflect the performance and conduct of an individual when determining their variable remuneration;
- (c) when determining executive director remuneration policy and practices, address the following factors set out in Provision 40 of the Code:
 - (i) clarity;
 - (ii) simplicity;
 - (iii) risk;
 - (iv) predictability;
 - (v) proportionality; and

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- (vi) alignment to culture;
 - (d) exercise judgement in the application of the framework and policies to promote the long-term success of the Group for the benefit of shareholders;
 - (e) include measures in the remuneration approach to avoid potential conflicts of interest in the design of incentive arrangements to ensure that the interests of the Group, executive directors, senior managers, other employees and shareholders are aligned;
 - (f) work with and seek advice from the Risk and Compliance Committee (“RCC”) on the management of remuneration risk including advice on the measurement of performance in the context of incentives, the vesting of long-term incentives, and the application of risk adjustments, malus or clawback;
 - (g) request the RCC to provide qualitative and quantitative advice to the Remuneration Committee on the risk profile of the Company, including performance against risk appetite and an assessment of all current and future risks to support the Remuneration Committee in its decisions. This information will inform the risk weightings to be applied to performance objectives incorporated into executive remuneration as well as overall bonus outturns for employees. Such work shall be provided in the first instance by the Chief Risk Officer with oversight by the RCC Chair. The Chief Risk Officer shall undertake such work and prepare a report for the Committee on a regular basis;
 - (h) receive input from the Chief Risk Officer to ensure that any new remuneration policy proposals are aligned with the requirements of sound and effective risk management;
 - (i) conduct an annual review of the adequacy and effectiveness of the remuneration policy to ensure it supports sound and effective risk management and the appropriateness and relevance of the policy, including any variable remuneration in overall compensation;
 - (j) ensure a central and independent annual review of the remuneration policy is undertaken by the Internal Audit function, to ensure full compliance with the relevant regulations, regulatory expectations and Group policies. This review should also seek to ensure that the Group’s remuneration processes and principles as set out in the remuneration policy are being consistently implemented in line with policy. Where issues are identified, a remedial action plan will be drawn up to address these issues;
 - (k) ensure that neither the Chair or any executive director or senior manager shall be involved in any decisions as to their own remuneration; and
 - (l) when receiving views from executive directors or senior management or consulting with the Chief Executive take care to recognise and manage conflicts of interest.
- 11.3 When setting remuneration policy for those detailed in 11.2(a), the Committee shall review and have regard to pay and employment conditions across the Group, and in particular the pay differentials between those detailed in 11.2(a) and the wider employee population, especially when determining annual salary / fee increases.

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- 11.4 The Committee will consider the Group’s pay equity position on at least an annual basis, ensuring that meaningful steps are taken to identify, eliminate and rectify any identified gaps, with a view to any statutory duties relating to equal pay and non-discrimination.11.5 For those senior control function MRTs, including those roles detailed in 11.2(a)(v), the Committee shall review and ensure that they are remunerated in such a way that any link to company performance is at a minimum level. Variable remuneration for these individuals should be in accordance with the achievement of the objectives linked to their functions. When determining the level of variable remuneration awarded to these MRTs, the Committee shall ensure this is not a predominant part of their total remuneration.
- 11.6 The Committee shall ensure that variable remuneration awarded to other MRTs, not covered in 11.5, does not exceed 200% of their fixed remuneration.
- 11.7 The Committee shall ensure that variable remuneration awarded to MRTs is subject to deferral in line with the requirements set by the PRA and FCA and that the deferral amount, deferral period, and the periods over which malus and clawback can be applied, reflect each MRT’s:
- (i) role;
 - (ii) level of variable remuneration;
 - (iii) level of total remuneration; and
 - (iv) variable remuneration as a percentage of their total remuneration.
- 11.8 The Committee shall review and approve malus and/or clawback decisions relating to variable remuneration awarded to an MRT.
- 11.9 The Committee shall review and approve variable remuneration proposals for MRTs and their supporting performance assessments to ensure these take account of all relevant financial and non-financial metrics, and personal and conduct behaviours used to assess the overall performance of each MRT.
- 11.10 The Committee shall review and approve the policy and process for identifying MRTs under the relevant remuneration regulations and any changes to the identification policy. The Committee shall also approve the resultant list of the Company’s MRTs on at least an annual basis and any individual roles which are proposed to be excluded from the list (which will require notification to and/or approval from the PRA and FCA).
- 11.11 The Committee shall ensure that contractual terms on termination, for those detailed in 11.2(a), and any payments made, are fair to the individual, and the Company, that failure is not rewarded, and that the duty to mitigate loss is fully recognised.
- 11.12 Having regard to the Group’s policy and contractual terms on termination of employment and the reasons for the termination of employment, the Committee shall ensure that any payments made (including pension contributions and all other elements of remuneration) those detailed in 11.2(a) on termination are reasonable.
- 11.13 The Committee shall also ensure that management does not permit failure or conduct that is not in line with HR/Compliance/other relevant policies and behaviours to be rewarded and the duty to mitigate loss is fully recognised.
- 11.14 The Committee shall approve the design of, and determine targets for, any performance-related pay schemes operated by the Company for those individuals stated within 11.2(a) and approve the total annual payments made under such schemes. Such schemes shall

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include provisions that would enable the Company to recover sums paid or to withhold payment of any sum, and specify the circumstances in which it would be appropriate to do so.

- 11.15 The Committee shall review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, the Committee shall determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to those individuals stated within 11.2(a) and the performance targets to be used.
- 11.16 The Committee shall establish schemes that promote the long-term shareholder interests of the Company amongst executive directors, with share awards subject to a total vesting and holding period of at least five years.
- 11.17 The Committee shall monitor and assess any performance conditions applicable to any long term incentive awards granted under any schemes adopted by the Company.
- 11.18 The Committee shall determine the policy for, and scope of, pension arrangements for each executive director and other designated employees noted in 11.2(a).
- 11.19 The Committee shall consider whether executive directors should be required to hold a minimum number of shares for a further period after vesting or exercise, including a period after leaving the Group, encompassing both vested and unvested shares.
- 11.20 The Committee shall review the pension arrangements for the executive directors and consider:
- (a) the alignment of pension contribution rates, or payments in lieu, for executive directors with those available to the workforce; and
 - (b) the pension consequences and associated costs to the Company of basic salary increases and any other changes in pensionable remuneration or contribution rates, particularly for directors close to retirement, when compared with workforce arrangements.
- 11.21 The Committee shall review workplace remuneration and related policies and the alignment of incentives and rewards with culture; and when setting the policy for executive director remuneration, take into account those same matters.
- 11.22 The Committee shall exercise appropriate discretion when determining incentive outcomes to ensure outcomes are reflective of the Group’s performance and the wider shareholder experience.
- 11.23 The Committee shall approve any disclosures required to be made from time to time relating to the remuneration policy, including the preparation of the Remuneration Policy Statement and High Earners Report, as required under the Remuneration Codes.

12 Reporting responsibilities

- 12.1 The Committee Chair shall report to the Board on the Committee’s proceedings, as the Committee Chair considers appropriate, after each meeting on all matters within its duties and responsibilities.
- 12.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 12.3 The Committee shall ensure that provisions regarding disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and

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Reports) Regulations 2008 and the Code, are fulfilled and produce a report of the Group’s remuneration policy and practices to be included in the Group’s annual report and ensure each year that it is put to shareholders for approval at the Annual General Meeting. If the Committee has appointed remuneration consultants, the annual report of the Group’s remuneration policy should identify such consultants and state whether they have any other connection with the Group.

- 12.4 Through the Chair of the Board, ensure that the Committee Chair maintains contact as required with its principal shareholders about remuneration. The Committee shall seek engagement from principal shareholders on significant matters relating to remuneration.
- 12.5 The Committee shall make publicly available the Committee’s Terms of Reference by placing them on the Company’s website.

13 Other matters

The Committee shall:

- 13.1 have access to sufficient resources (e.g. financial) in order to carry out its duties, including unfettered access to the Company Secretariat, and HR departments and independent control functions for assistance as required;
- 13.2 have access to all data and information concerning the decision making process of the Board on remuneration policies, practices design and implementation;
- 13.3 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- 13.4 have full authority to appoint remuneration consultants, subject to item 2.7, and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary restraints imposed by the Board;
- 13.5 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- 13.6 give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of listed/non listed companies and formation and operation of share schemes including but not limited to the Companies Act 2006, the provisions of the Code, the Remuneration Codes, the requirements of the Financial Conduct Authority’s Listing Rules, Prospectus Regulation Rules and Disclosure Guidance and Transparency Rules as well as guidelines published by the Investment Association, Institutional Shareholder Services and the Pensions and Lifetime Savings Association and any other applicable guidance, as appropriate; and
- 13.7 arrange for periodic reviews of its own performance and, at least annually, review its constitution and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

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Appendix 1

	Item Number	Additional comment/explanation
Items which do not apply to or are amended for PBG	NONE	
Items which do not apply to or are amended for the Bank	10, 11.14 – 11.16	These are not applicable to Paragon Bank PLC as it is not a listed entity