Paragon Banking Group PLC

Group Corporate Governance Policy Framework

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1. Introduction

Corporate governance is the system by which companies are directed and controlled. Paragon Banking Group PLC's (the "**Company**") shareholders appoint the Board of Directors (the "**Board**") and will hold the Board accountable for the effective governance of the business in which they have invested as shareholders.

The Board of the Company and its subsidiary undertakings (together the "**Group**") are committed to implementing a well-defined and well-structured corporate governance framework to achieve long-term sustainable success. This framework is supported by a corporate culture, underpinned by a set of values and behaviours that can ensure the prudent management of the Company's banking business.

The Company is bound by the Listing Rules of the Financial Conduct Authority ("**FCA**"), a set of rules which govern how businesses like the Company, which has a premium listing on the London Stock Exchange, are expected to act. The Listing Rules require the Company to include in its annual report and accounts a statement as to how the principles of good corporate governance, as set out in the Financial Reporting Council's July 2018 UK Corporate Governance Code (the "**Code**") and supplementary guidance, have been complied with. As the Code sets out best practice principles and practices of corporate governance, it is the intention of the Board to comply fully with the provisions of the Code. The Company's existing and prospective shareholders have an expectation of such compliance. Amongst other matters, this framework document addresses how the Company will do so.

The Company is a holding company and does not conduct any business directly. This is typical and prudent for a listed company. The Group consists principally of the holding company and a principal trading subsidiary – Paragon Bank PLC (the "**Bank**"). Given this, the Board has determined that the boards of the Company and the Bank will comprise the same persons and that meetings of each board will usually be held concurrently, with separate meetings when appropriate.

Although the Listing Rules and the Code only strictly apply to the Company, there is a clear need to ensure that corporate governance practices are applied throughout the Group in order to ensure that the Company is able to discharge its governance responsibilities effectively. Additionally, as a significantly-sized company in its own right, the Bank is required to adopt and disclose against its own corporate governance arrangements. With this in mind, insofar as the Code and this corporate governance framework for the Group is capable of being applied to the Bank, the Board has decided that it should be so applied.

This framework provides a key component of how the Board, assisted by its committees, governs the business of the Company. The framework, however, needs to be interpreted and applied within the context of other requirements, including but not limited to, applicable laws, the regulatory regime for deposit taking banks, the Listing Rules, the Articles of Association of the Company (the "**Articles**") and the Disclosure Guidance and Transparency Rules (which alongside the Listing Rules govern how businesses like the Company are expected to engage with investors, the market and the wider public). On appointment, directors are briefed on their duties and responsibilities as a director of a listed public company. Any subsequent changes to duties and responsibilities are provided to all directors by way of regular governance updates.

2. The Board of Directors

2.1. Articles of Association

The Articles were adopted by special resolution on 20 March 1998 and subsequently amended several times by special resolution, most recently in February 2021. Company law, particularly the Companies

Act 2006 ("**CA 06**"), and the Articles provide the Board with the mandate to manage the business of the Company and act as its agent. It is on this authority that this governance framework is formed.

The Articles permit the Board to delegate any of its powers to any director or committee the Board has decided upon. The Board remains responsible, however, for all acts of the Company notwithstanding such delegation of authority.

2.2. General Responsibilities

A director must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members (i.e. shareholders) as a whole and in doing so have regard, amongst other matters, to:

- the likely consequences of any decisions in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Board also has a general duty to ensure that the Company conducts business in accordance with all relevant statutory and regulatory rules and requirements. Related thereto, the Board is responsible for ensuring that the FCA Consumer Duty is properly embedded within the firm and ensuring that there is a clear view of the scope, role and impact of the Company's products and services on its customers. A non-executive director is designated as the Consumer Duty Board Champion in order to support the Chair and CEO in raising the Duty regularly in all relevant discussions, and challenging management on how it is embedding the Duty and focusing on consumer outcomes.

The Board has responsibility for determining the business strategy and related risk appetite of the Group and to then monitor performance against the criteria it has set and report to shareholders on a semi-annual and annual basis.

The Board also has responsibility to maintain a system of internal systems and controls, which provide assurance of effective and efficient operations, internal financial controls and compliance with all applicable laws and regulations. Additionally, the Board is responsible for ensuring that the executive maintain an effective risk management and oversight process across the Company to enable delivery of the strategy and business performance within the approved risk appetite and risk control framework.

Fundamentally, the Board is the main decision-making forum for the Company. Therefore, all matters of significance because of their strategic, risk, financial, key person, regulatory or reputational implications or consequences should be addressed by the Board.

2.3. Purpose, values and culture

As well as driving business strategy, the Board has primary responsibility for establishing the Company's purpose and values, and for ensuring that these are aligned with the Company's culture. The Board reviews and reflects upon the Company's purpose, values, and culture from time to time.

The Board regularly assesses the Company's ESG objectives and commitments, to embed ESG into culture and align it with purpose, value and strategy.

Every Board member is expected to act with integrity, lead by example, and promote the Company's desired culture, ensuring that the Company's purpose is not just a slogan, but an imperative.

2.4. Matters Reserved for the Board

A formal schedule of matters reserved for the Board is in place and is attached to this framework as Appendix 1.

Whilst a number of matters are reserved for the Board, to ensure the efficient governance of the Company, the Board delegates certain responsibilities and authorities to the Chief Executive Officer and others to Board committees. These delegations are explained later in this document.

2.5. Legal Framework

Under UK law, directors owe both fiduciary duties and general duties to the Company as a whole (and not to individual shareholders or groups of shareholders). Under the CA 06, there are seven statutory general duties owed to the Company, which are set out below:

- only exercising powers in accordance with the Company's constitution (including the resolutions of shareholders and the Articles) and for the purpose for which those powers are conferred;
- at all times acting in the way they consider, in good faith and honestly, to be in the Company's best interests and to promote the success of the Company for the benefit of all its members (and having regard to the interests of other stakeholders);
- exercising independent judgment in carrying out their duties and making their own decisions;
- exercising reasonable care, skill and diligence in carrying out their duties commensurate with their knowledge and experience;
- avoiding a situation where a direct or indirect interest may conflict with the interests of the Company;
- not to accept benefits from third parties; and
- to declare any interest in proposed transactions or arrangements.

In addition, as noted above, directors must ensure that the Company does everything that is required of it by law and regulation.

2.6. Regulatory Framework

The Bank is regulated in the UK by the FCA and by the Prudential Regulation Authority ("**PRA**"). Under the Senior Managers and Certification Regime, which replaced the approved persons' regime with effect from 7 March 2016, the following non-executive directors of the Bank are Senior Management Function ("**SMF**") holders and have prescribed oversight responsibilities under the PRA and/or the FCA regimes:

- Group Chair
- Chair, Audit Committee
- Chair, Risk and Compliance Committee
- Chair, Remuneration Committee
- Chair, Nomination Committee
- Senior Independent Director ("**SID**")

The executive directors also have prescribed responsibilities, whilst other non-executive directors are 'notified NEDs'.

SMF holders are required to act in accordance with Senior Manager Conduct Rules, which replaced the Statements of Principle and Code of Practice for Approved Persons under the approved persons regime. The Senior Manager Conduct Rules, which are high-level and apply only to a person's conduct relating to the activities which that person performs in their capacity as an employee or senior manager of the firm, are set out below:

- SC1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively.
- SC2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with relevant requirements and standards of the regulatory system.
- SC3: You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate person and that you oversee the discharge of the delegated responsibility effectively.
- SC4: You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice.

In addition to the Senior Manager Conduct Rules, the FCA and PRA have also implemented Individual Conduct Rules. Whilst the notified NEDs are not SMF holders and are not obliged to comply with the Senior Manager Conduct Rules, they are required to act in accordance with the Individual Conduct Rules.

2.7. Shareholder Approval

The following matters (which list is not exhaustive) require approval by the Company’s shareholders and take precedence over (or where permissible, operate in conjunction with) any matters reserved for the Board:

- any changes to the Company’s listing or its status as a PLC;
- Class 1 transactions and related party transactions (unless an exemption from the relevant rules applies);
- depending on the size of the transaction and counterparty, major changes to the Company’s corporate structure including creation of subsidiaries, liquidation of subsidiaries, mergers, acquisitions or disposals of shares which are material relative to the size of the Company and its subsidiaries and material equity investments and disposals;
- receipt and consideration of annual report and accounts and approval of directors’ remuneration policy and remuneration report at the Annual General Meeting;
- approval of loans, quasi-loans, letters of credit etc. in relation to a director;
- political donations;
- final year dividend approval at the Annual General Meeting;
- appointment, removal and remuneration of the Company’s external auditors;
- continuation in office of directors by way of annual re-election at the Annual General Meeting and removal of a director;
- approval of a director’s long-term service contract;
- introduction of new share incentive plans or material changes to existing plans;
- alteration of the Articles;
- disapplication of pre-emption rights; and
- amendments to the Company’s share capital, including reduction of the Company’s capital or purchase of own shares, sub-division or consolidation of shares.

3. Key Board Processes

3.1. Appointment to the Board

Members of the Board are appointed in accordance with the Articles. The Articles state that the Board shall be made up of not less than 2 directors but shall not be subject to any maximum number. The Company seeks to maintain a combination of executive and non-executive directors (in particular independent non-executive directors) with the aim of having at least half the Board made up of independent non-executive directors to ensure Code compliance in this respect. The Nomination Committee keeps the size and composition of the Board under continuous review.

Appointment to the Board is overseen by the Nomination Committee to ensure that director candidates meet the criteria for membership of the Board. In doing so, the Committee has regard to the balance of skills, experience, and knowledge on the Board appropriate for the business and whether or not a candidate meets the relevant independence requirements. A matrix of the skills currently on the Board has been developed and forms the basis for continuing professional development and future succession plan requirements.

A formal, rigorous and transparent procedure for the appointment of new directors is used. Appointments are made on merit against defined job specifications and criteria. Typically, an external search firm is used in the process. The Chair and the Chief Executive Officer and members of the Nomination Committee will typically interview potential appointments to the Board.

All non-executive directors have a written letter of appointment, including an estimated time commitment to the director role of approximately 36 days per year (although non-executive directors with chair responsibilities are required to commit to more time than this i.e. a minimum of 45 to 50 days per annum), setting out the terms of their appointment to the boards of the Company and the Bank. The Chair is expected to commit one day per week to the role, and potentially more at key times. As per their written letters of appointment, non-executive directors are appointed for three-year terms and are subject to re-appointment, as recommended by the Nomination Committee, upon the conclusion of each three-year term. Directors of the Company are subject to election or annual re-election at the Annual General Meeting of the Company subject to their time availability, performance and, in the case of independent directors, re-confirmation of their independence.

The Board as a whole, with the non-executive directors abstaining, will annually review the fees to be paid to non-executive directors. Remuneration arrangements for the Chair and the executive directors are the responsibility of the Remuneration Committee. All directors must comply with the Paragon Banking Group PLC Share Dealing Code.

3.2. Induction and Continuous Training

On appointment there is an induction programme for all new directors which is tailored by the Chief People Officer and the Chair to the individual needs of the director having regard to their specific roles and their skills and experience. The aim of the programme is to build an understanding of the business and the key issues the business faces, to communicate the corporate governance arrangements and strategy, and to build links with, and access to, senior management within the business. Site visits are an important part of any induction to see operations and meet key staff in the business at first hand.

Regular director training and information sessions to address current business or emerging issues are arranged as appropriate. As a part of the board effectiveness process, the training needs of individual directors are reviewed.

3.3. Independence

In line with the Code, the Company seeks to ensure that at least half the Board, excluding the Chair, is made up of independent non-executive directors. Following appointment, the Chair is not deemed to be independent.

The Code sets out circumstances which may be relevant to the Board's determination of whether a non-executive director is independent. The Nomination Committee will consider these criteria and the issue of independence on an annual basis in order to determine the independence of non-executive directors and advise the Board accordingly in the context of putting forward directors for annual re-election. The Chair on appointment should meet the independence criteria but thereafter a test of independence is no longer appropriate given the role.

The Board has also concluded that the following behaviours are relevant in assessing directors' independence:

- provides objective challenge to management;
- is prepared to challenge other directors' assumptions, beliefs or viewpoints as necessary for the good of the organisation;
- questions intelligently, debates constructively, challenges rigorously and decides dispassionately;
- is willing to stand up to defend their own beliefs and viewpoints in order to support the ultimate good of the organisation; and
- has a good understanding of the organisation's businesses and affairs to enable them to properly evaluate information and responses provided by management.

Whilst these criteria are used primarily in relation to independent non-executive directors, the Board considers such behaviours desirable in all non-executive directors.

3.4. Conflicts of Interest

No director will put themselves in a position where their interests conflict, or may be perceived to conflict, with those of the Company. Directors must not accept a benefit from a third party conferred by reason of:

- being a director; or
- doing (or not doing) anything as a director.

Directors are required to notify the Company Secretary in advance of any potential conflicts through other directorships, shareholdings, or otherwise. In the event of a conflict, or where a potential conflict could arise, affected directors must seek authorisation from the Board, in accordance with the Articles.

If directors have any doubts about whether a conflict or potential conflict may arise, they should consult the Chair or Company Secretary in the case of non-executive directors, or the Chief Executive Officer in the case of executive directors, before doing anything that might compromise the Company. It is advisable to take a conservative approach in this area and 'over disclose' in the case of doubt.

A conflicts register is maintained by the Company Secretary, which reports to the Board to confirm that, where relevant, conflicts have been dealt with appropriately and that the process for dealing with them is operating effectively. The conflicts register is reviewed by the Board bi-annually.

3.5. Board Effectiveness

The Company is committed to monitoring and improving the performance of its Board. As a part of this process, the Board conducts a formal and rigorous annual evaluation of its own performance, that of its committees and of its individual directors.

The Chair, in partnership with the SID, takes responsibility for the overall performance evaluation process which normally takes the form of a detailed questionnaire supplemented by individual interviews with each of the directors. In each case, the results and recommendations arising, along with an implementation plan, are reported to, discussed and approved by the Board. The Committee Chair of each board committee is responsible for the evaluation of their committee on an annual basis and proposing any plan to implement recommendations arising.

The Board states in the Annual Report and Accounts how the performance evaluation of the Board, its committees and its individual directors has been conducted.

The Board will obtain external facilitation of the board effectiveness process at least every three years.

Whether the evaluation is conducted internally or externally, the evaluations consider, among other matters:

- the mix of skills, experience, knowledge and diversity on the Board, in the context of the challenges faced;
- clarity of leadership given to the Company;
- succession and development plans;
- how the Board works together as a team, and the tone set by the Chair and CEO;
- key board relationships, particularly Chair/CEO, Chair/SID and executive/non-executive;
- effectiveness of individual non-executive and executive directors;
- clarity of the SID role;
- effectiveness of board committees and how they are connected with the main Board;
- quality of general information provided on the Company and its performance;
- quality of papers and presentations to the Board;
- quality of discussions around individual proposals;
- process the Chair uses to ensure sufficient debate;
- effectiveness of the company secretariat;
- clarity of decision processes and authorities;
- process for identifying and reviewing risks; and
- how the Board listens to and communicates with, shareholders and other stakeholders.

3.6. Succession Planning

The Nomination Committee is responsible for considering succession planning for the Chief Executive Officer and other key roles on the Board and conducts a bi-annual review of succession planning and proposes initiatives to address any issues as necessary.

3.7. Board Meetings

The Board schedules up to 10 meetings a year and may meet additionally at such other times as the Chief Executive Officer and Chair decide is required. Meetings of the Board are convened by the Company Secretary. All directors are expected to attend each meeting unless there are exceptional circumstances that prevent them from doing so.

An agenda of items to be discussed, together with supporting papers relevant to the agenda, is circulated to each member of the Board no later than five working days before the meeting date. All directors have the opportunity to propose agenda items to be added to the formal Board agenda.

The Secretary to the Board or their nominee minutes the proceedings and resolutions of all Board meetings, including the names of those present. Minutes of Board meetings are circulated to all members of the Board.

In addition to Board meetings, directors are required to attend an annual strategy meeting to review more broadly the strategic direction of the business.

All directors are also required to attend the Company's Annual General Meeting and to make themselves available during and after the meeting to answer questions from shareholders.

Board information calls, which are not minuted and not formal Board meetings, may be used where appropriate to inform or update the Board between Board meetings. Typically, these will be conducted by telephone or video conference.

3.8. Company Secretary

The Company Secretary provides dedicated support to the Board, in particular, the non-executive directors, and should be a point of reference on board processes, and governance and public market requirements.

The Company Secretary ensures that Board directors receive all necessary information; that Board and committee papers are made available on a timely basis; and that all minutes are accurate, concise and prepared promptly. The Company Secretary is also the key focal point for other board procedural matters.

3.9. Indemnity and Insurance

The Company has in place Directors and Officers Liability Insurance which provides cover (subject to a deductible, limits and policy terms and conditions) against lawsuits by third parties. The terms and extent of cover are reviewed by the Board for reasonableness.

3.10. Shareholder Relationships

The Company is committed to maintaining good relationships and communications with its shareholders and seeks to achieve this through regular meetings, particularly with larger shareholders. Shareholder contact is primarily the responsibility of the Chief Executive Officer and Chief Financial Officer, who provide shareholders with regular trading and performance updates at appropriate intervals.

The Chair, the Chair of the Remuneration Committee and the Chief People Officer also hold annual meetings with leading shareholders to discuss remuneration policies and other corporate governance matters and the comments received are reported to the Board and considered by the Remuneration Committee in determining or varying the Group's approach to executive compensation.

3.11. Other Stakeholder Relationships

The Group believes that the long-term interests of shareholders, employees, customers and other stakeholders are best served by acting in a socially responsible manner and aims to ensure that a high standard of corporate governance and corporate responsibility is maintained in all areas of its business and operations.

The Board, in its deliberations and decision-making processes takes into account the views of the Group's stakeholders and, where applicable, considers the impact of those decisions on the communities and environment within which the Group operates. The Board is mindful of its duty to act in good faith and to promote the success of the Group for the benefit of its members as a whole (i.e. shareholders) and with regard to the interests of all of its stakeholders. While good corporate governance is important to the Board, so too is maintaining a reputation for high standards of business conduct in all of the Group's operations, and management of conduct risk is a key part of the risk management framework.

The Company uses its People Forum as a platform for employee engagement and feedback. The Chair of the Board and the Chief People Officer are responsible for ensuring that there is regular engagement between the Board and the People Forum, and for meeting outcomes in relation to employee engagement. Non-executive directors regularly attend People Forum meetings to discuss certain topics.

3.12. Inside Information

The Board is concerned to ensure inside information is controlled, to prevent market abuse and to promptly and fairly disclose matters to the market as required by the FCA's Disclosure Guidance and Transparency Rules. The Board has implemented procedures, systems and controls to ensure these matters are dealt with effectively; these include a Disclosure Committee chaired by the Chief Executive Officer. If a director becomes aware of a matter that they believe may amount to non-public price sensitive information of which the wider Board is not aware they should inform the Chief Executive Officer immediately.

As previously noted, the Company has approved a Share Dealing Code that meets the requirements of the FCA and the UK Market Abuse Regulation. This Code restricts share dealings by directors and other insiders during closed periods and during any period where there is inside information.

3.13. Key Group Policies

The approval of key Group policies, including material amendments thereto from time to time, is a matter reserved for the Board. The current list of key Group policies (excluding those approved by Board sub-committees, and which may be amended from time to time) is:

- Equality, Diversity and Inclusion policy
- Anti-Bribery and Corruption policy
- Health and Safety policy
- Modern Slavery Act statement/policy
- Whistleblowing policy
- Tax strategy and policy
- Market Abuse Regulations policies
- Board Conflicts of Interest Policy
- Policy on External Auditor Independence and the Provision of Non-Audit Services by the External Auditor

A non-executive director is designated as Whistleblowing Champion to oversee the integrity, independence and effectiveness of the Whistleblowing policy.

4. Board Roles

4.1. Chair

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 running of the business of the Group. The Non-Executive 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 Chief Executive Officer leads the day to day executive management of the business, reporting to the Board through the Chair. The respective responsibilities of the Chair, the Chief Executive Officer and the SID are set out in the division of responsibilities statement provided in Appendix 2.

In overview, the Chair is primarily responsible for setting the Board's agenda and ensuring that sufficient time is available to discuss all key agenda items – particularly on business model/strategy, risk, business performance, culture/values, governance, major people issues and key regulatory matters (including capital, solvency, liquidity and conduct).

The Chair also promotes a board culture of constructive challenge, openness and debate by facilitating the effective contribution of non-executive directors in particular. Whilst the executive are accountable to the Board for the management of the business, the Chair should seek to ensure that the working relationship between the non-executives and the executive is constructive, open and transparent.

The Chair is responsible for ensuring that the directors receive accurate, timely and clear information. The Chair also ensures effective communications with shareholders takes place, primarily via the Chief Executive Officer and Chief Financial Officer.

The appointment of the Chair must be approved by the Board and, on appointment, the Chair should meet the independence requirements set out above for independent non-executive directors. The Chair's appointment and performance should be reviewed annually by the non-executive directors of the Board, led by the SID. In common with other directors, the Chair is subject to annual re-election by the shareholders; the Chair is thus held accountable to shareholders for the effectiveness of the Board and the building of a sustainable business that is prudently managed, taking into account the interests of wider stakeholders.

4.2. Senior Independent Director

The Board designates an independent non-executive director as the SID. The SID provides a sounding board for the Chair and serves as an intermediary for the other directors when necessary.

The SID is available to shareholders if they have concerns for which contact through the normal channels of Chair, Chief Executive Officer or other executive directors have failed to resolve or for which such contact is inappropriate.

Led by the SID, the non-executive directors meet without the Chair present at least annually to appraise the Chair's performance and on such other occasions as are deemed appropriate.

4.3. Committee Chairs

The Committee Chairs fulfil an important leadership role, alongside the Chair, particularly in creating the conditions for individual board committee effectiveness and the effectiveness of the directors on their committees. The Committee Chairs preside at meetings of the board committees and ensure that the work of each committee is effective and efficient.

The key duties of the Committee Chairs are to provide:

- strong leadership to the relevant committee in setting the agenda and meeting the committee's terms of reference;
- effective chairmanship of each meeting to ensure constructive challenge and debate;
- reports to the Board on the work of each meeting, on matters recommended for Board approval and on any changes to a committee's terms of reference; and
- an annual evaluation of committee effectiveness and the implementation of improvements identified.

The specific duties, responsibilities, authorities and procedures for each committee are set out in the terms of reference for each committee. These are provided in Appendices 3 to 7 of this document.

4.4. Non-Executive Directors

As noted previously the Board has determined that membership of the Board will be made up of at least half independent non-executive directors (excluding the Chair).

In addition to the general legal and regulatory responsibilities of all directors set out in Section 2 of this document, non-executive directors' more specific responsibilities include:

- to promote the long-term sustainability of the business and business model for the benefit of its shareholders taking due account of the interests of other stakeholders, including customers;
- to constructively challenge and help develop proposals on business strategy and risk appetite and then empower the executive to implement the strategies;
- to help determine the nature and extent of the significant risks that the Company should take to achieve its strategic and financial objectives;
- to maintain sound risk management and internal control systems and to annually review the effectiveness of these systems and report to shareholders that this has been done;
- to scrutinise, monitor and challenge the performance of the executive team in meeting agreed goals, objectives and key performance indicators;
- to satisfy themselves on the integrity of financial information and that financial reporting to shareholders presents a fair, balanced and understandable assessment of the Company's position and prospects; such reporting includes not only price sensitive reporting but also reports to regulators and information required by statutory requirements;
- to monitor and maintain an appropriate relationship with the Company's external auditors;
- to determine the appropriate levels of remuneration of the executive directors (in the context of regulatory requirements for UK banks) and have a prime role in appointing and where necessary, removing executive directors, and in succession planning of senior management more generally;
- to ensure individual business decisions conform to agreed strategies and policies and are within the risk appetite of the Company;
- to keep informed of shareholders' views through feedback at Board meetings, attendance at the Annual General Meeting and through meeting institutional investors on request;
- to ensure that the Company has due regard to its reputation and conduct of business, more particularly that the business culture, values and behaviours are supportive of prudently running a safe and sound banking business; and
- to monitor and ensure that key prudential requirements for capital adequacy, solvency, liquidity and recovery and resolution are met, properly planned and consistent with strategic, risk appetite and business performance objectives.

All non-executive directors must ensure they have sufficient time available to discharge their responsibilities and that they regularly update their knowledge and familiarity with the Group's business.

4.5. Executive Directors

The Board has appointed two executive directors to the Board – the Chief Executive Officer and the Chief Financial Officer. The executive directors are members of the Board and, as such, have the same general duties and responsibilities as other directors. The Board delegates responsibilities and authority for day to day operations to the Chief Executive Officer and then holds the executive directors accountable at the Board for their effective management. As previously noted, Appendix 2 sets out the responsibilities of the Chief Executive Officer.

The primary role, in summary, of the Chief Executive Officer in relation to the Board includes the following:

- proposing and executing the Group's objectives and strategy as agreed by the Board, having regard to the Group's responsibilities to its shareholders and other key stakeholders (workforce, customers, suppliers, the community and regulators);
- leading the executive directors and the senior management team in the day to day running of the Group's business, including chairing the Executive Committee and communicating its decisions/recommendations to the Board;
- managing the Group's risk profile, including the health and safety performance of the business, in line with the extent and categories of risk identified as acceptable by the Board;
- ensuring effective implementation of Board decisions;
- primary responsibility for setting an example to the Group's workforce, explaining the Company's purpose and communicating to them the Board's expectations on culture, values and behaviours and ensuring that operational policies and practices drive appropriate behaviour;
- ensuring that the Board is made aware of views gathered via engagement between the management and the workforce;
- regularly reviewing the operational performance and strategic direction of the Group's business;
- regularly reviewing the Group's organisational structure and recommending changes as appropriate;
- supporting the Chair to ensure that appropriate governance standards spread through the organisation;
- formalising the roles and responsibilities of the senior management team, including clear delegation of authorities;
- developing high level policies which relate to the Group's values and standards for Board approval and then implementing them; and
- together with the Chair, providing coherent leadership of the Group, including representing the Group to customers, suppliers, regulators, government, shareholders, financial institutions, employees and the media.

The Board has also delegated certain financial authorities to the Chief Executive Officer and Chief Financial Officer, in accordance with matters reserved for the Board and the delegated executive authority.

5. Board Committees

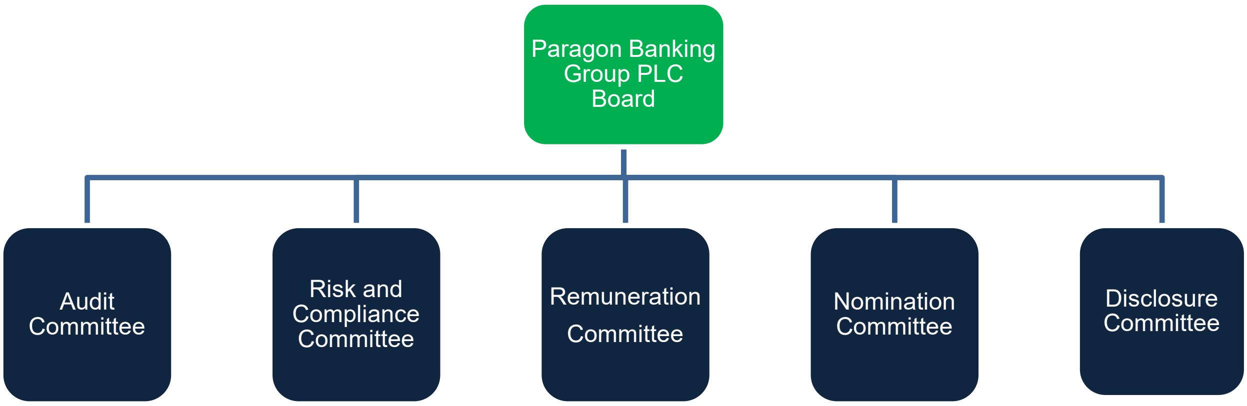
Under the Articles, the Board may delegate any of its powers to a committee of directors.

The Board is supported by its committees, which make recommendations to the Board on matters delegated to them, in particular in relation to internal control, risk, financial reporting, governance and remuneration matters. This enables the Board to spend a greater proportion of its time on strategic, forward-looking agenda items.

The Chair of each Committee is recommended by the Nomination Committee for the approval of the Board. Membership of each Committee is reviewed jointly by the Nomination Committee in conjunction with the Chair of each Committee and then recommended for the approval of the Board. The Company seeks to comply with the Code on the criteria for the appointment of the Chair and membership of each Committee.

Annually each Committee is required to review its terms of reference and its effectiveness. The Nomination Committee keeps the membership of Committees under review with a view to making recommendations to the Board for change if necessary.

The Company's key Committee structure is set out below:



5.1. Audit Committee

The Audit Committee is chaired by an independent non-executive director and consists of at least three independent non-executive directors. Only independent non-executive directors may be members of the Committee. At least one of these members must have recent and relevant financial experience ideally with a professional qualification from one of the professional accounting bodies, and at least one must also be a member of the Risk and Compliance Committee. Where possible, at least one must also be a member of the Remuneration Committee. The quorum for the committee is at least two members. The Committee meets at least four times a year and otherwise as required to fit in with the Group's financial reporting and audit cycle.

The detailed terms of reference for the Committee are set out in Appendix 3. In summary, the primary purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring:

- the integrity of the financial and narrative statements provided to shareholders;
- the effectiveness of the Group's internal control systems;
- the independence and effectiveness of the internal and external audit process and auditors; and
- the process for compliance with laws, regulations and ethical codes of practice.

5.2. Remuneration Committee

The Remuneration Committee is chaired by an independent non-executive director and consists of at least three independent non-executive directors. Additionally, the Chair of the board may serve on the Remuneration Committee as a member if he or she was considered by the Board to be independent on appointment to Chair of the Board.

The quorum for the Committee is two. The Committee meets at least three times a year and otherwise as required.

The detailed terms of reference for the Committee are set out in Appendix 5. In summary, the primary purpose of the Committee is as follows:

- ensure 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
- ensure executive remuneration is aligned to company purpose and values and linked to delivery of the Company's long-term strategy.

5.3. Nomination Committee

The Nomination Committee consists of at least three independent non-executive directors. In addition, the Board Chair may be a member of the Committee if he or she was considered by the Board to be independent on appointment as Chair of the Board. The Board shall appoint the Committee Chair, who shall be either the Board Chair or an independent non-executive director.

The detailed terms of reference for the Committee are set out in Appendix 6. In summary, the primary purpose of the Committee is as follows:

- to ensure that there is a formal, rigorous and transparent procedure for the appointment of new directors to the Board, to lead the process for Board appointments and make recommendations to the Board;
- to assist the Board in ensuring its composition is regularly reviewed and refreshed taking into account the length of the service of the Board as a whole, so that it is effective and able to operate in the best interests of shareholders; and in doing so, the Committee shall work and liaise with other Board committees, as appropriate (including the Remuneration Committee in respect of any remuneration package to be offered to any new appointee of the Board);
- ensure plans are in place for orderly succession to positions on the Board and as regards senior management, including the Company Secretary;
- oversee the development of a diverse pipeline for succession;
- oversee the adoption of appropriate internal policies on the assessment of the suitability of Directors of the Company and its subsidiaries (as defined by the CA 06), Executive Committee members and other key personnel who are subject to regulatory approval; and
- receive and consider updates on employee engagement.

5.4. Risk and Compliance Committee

The Risk and Compliance Committee is chaired by an independent non-executive director and consists of at least three independent non-executive directors, one of whom shall be a member of the Audit Committee. The quorum for the Committee is at least two members. The Committee meets as a minimum four times a year and otherwise as required.

The detailed terms of reference for the Committee are set out in Appendix 4. In summary, the primary purpose of the Committee is to review, on behalf of the Board, management's recommendations on enterprise risk, in particular:

- the Group's current and future risk appetite including the extent and categories of risk which the Board regards as acceptable;
- the Group's enterprise risk management framework including principles, supporting frameworks, risk policies, personnel and procedures;
- the risk culture to ensure that it supports the Group's risk appetite;

- the strategy to ensure it promotes integrity in the market, fair treatment of customers and good outcomes for retail customers as central to the Group's operations and culture; and
- the Group's processes for compliance with laws, regulations and ethical codes of practice and prevention of fraud.

5.5. Disclosure Committee

The Disclosure Committee consists of at least two members. The current membership is the Chief Executive Officer, the Chief Financial Officer, the External Relations Director and such other persons as the Committee Chair shall, from time to time, determine. The quorum for the Committee is two members, one of whom must be the Chief Executive Officer or Chief Financial Officer. The Committee shall meet at such times and in such manner as necessary or appropriate.

The Committee has responsibility for, among other things, determining on a timely basis the disclosure treatment of material information, and assisting in the design, implementation and periodic evaluation of disclosure controls and procedures. The Committee also has responsibility for the identification of inside information for the purpose of maintaining insider lists.

The detailed terms of reference for the Committee are set out in Appendix 7. In summary, the primary purpose of the Committee is to assist the relevant listed Group entities to meet the following requirements:

- to make timely and accurate disclosure by all relevant listed Group entities of all information that is required to be so disclosed to meet the legal and regulatory obligations and requirements arising from their listings on the London Stock Exchange and the UK Market Abuse Regulation; and
- to maintain insider lists, being lists of those persons working for relevant listed Group entities with access to inside information concerning such entities.