

Paragon Banking Group PLC

& Paragon Bank PLC

Matters Reserved for the Board

Approved: 24 June 2020

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Section 1: Overview

The Board's primary role is to provide effective leadership, which promotes the long-term sustainable success of the company, generates value for shareholders and contributes to wider society. The Board establishes the company's purpose, values and strategy and ensures that these and its culture are aligned and establishes a framework of prudent and effective controls, which enable risk to be assessed and managed. No matter how effective a Board of directors is, maybe it is not possible for it to have hands-on involvement in every area of the company's business. An effective Board controls the business but delegates day to day responsibility to the executive management. That said there are a number of matters which are required to be or, in the interests of the company, should only be decided by the Board of directors as a whole. The Financial Reporting Council's 'Guidance on Board Effectiveness July 2018' states 'Ensuring there is a formal schedule of matters reserved for its decision will assist the board's planning and provide clarity to all over where responsibility for decision-making lies.'

A Prudential Regulation Authority Supervisory Statement (SS5/16: July 2018) adds that '...the PRA expects boards to articulate clearly and unambiguously the matters reserved to the board. ...'

The Board will act in accordance with relevant legislative and regulatory requirements including the directors' duties detailed in sections 171 to 177 of the Companies Act 2006.

The Matters Reserved for the Board ('MRB') are set out in Section 2.

1.1 Board approval

The MRB were previously approved on 24 September 1993 and 29 September 2004. A revised version was reviewed with consequential amendments on 28 July 2016, and 26 July 2018 and 26 September 2019. This revised version was approved on 24 June 2020.

1.2 Interpretation

- 1.2.1 The Boards and Committees of Paragon Banking Group PLC ('PBG') and Paragon Bank PLC (the 'Bank') have identical membership and sit jointly on most occasions. Where a joint meeting takes place the MRB shall apply. Where PBG or the Bank sit separately the MRB shall apply except where due to statute, regulation or other reasons considered appropriate by the directors/executives they cannot or should not apply. 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 MRB, 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 MRB the term 'Group' shall mean PBG and its subsidiaries as defined by the Companies Act 2006. Should the MRB be used solely then the same definition shall apply but when used for Bank then this definition shall mean only those subsidiaries of the Bank as defined by the Companies Act 2006.
- 1.2.3 For the purpose of these MRB the term 'Company' shall mean, when used as a joint document, both PBG and the Bank. Where the MRB are used for either PBG or the Bank then it shall mean the relevant company only.
- 1.2.4 For the purpose of these MRB the term 'Board' shall mean, when used as a joint document, the Boards of both PBG and the Bank. Where the MRB are used as either of PBG or the Bank then it shall mean the relevant Board only.

1.3 Next review

The MRB will next be reviewed in July 2021.

Matters Reserved for the Board Schedule

Paragon Banking Group PLC ('PBG') & Paragon Bank PLC (the 'Bank')

Section 2:

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| 1. | Strategy and management |
| 1.1 | Responsibility for the overall leadership of the Company and the Group, promoting the long-term sustainable success of the Company and the Group, generating value for shareholders and contributing to wider society. |
| 1.2 | Setting and confirming the Group's purpose, values and strategy and ensuring that these align with and promote its culture and the way in which it conducts its business |
| 1.3 | Approval of the annual corporate plan including the business plan, operating and capital expenditure budgets and any material changes to them ensuring that the necessary resources are in place for the Group to meet its objectives and measure performance against those objectives |
| 1.4 | Oversight of the Group's operations ensuring: <ul style="list-style-type: none">• competent and prudent management;• sound planning;• maintenance of sound risk management and internal control systems;• adequate accounting and other records;• compliance with statutory and regulatory obligations;• IT strategy supports the business objectives;• outsourced functions are appropriately managed;• conflicts between short-term interests and the long-term impacts of decisions are managed and shareholder and stakeholder interests from the perspective of the Group's long-term sustainable success are appropriately assessed;• workforce policies and practices are consistent with the Group's values and culture and support its long-term sustainable success; and• the workforce is able to raise any matters of concern in confidence and anonymously |
| 1.5 | Review of performance in the light of the Group's purpose, values, strategy, objectives and culture including its corporate and business plans and budgets and ensuring that any necessary corrective action is taken where the Board is not satisfied that policy, practices or behaviour throughout the Group are aligned with its purpose, values and strategy |
| 1.6 | Extension of the Group's activities into new business or geographic areas |
| 1.7 | Any decision to cease to operate all or any material part of the Group's business |
| 2. | Structure and capital |

Matters Reserved for the Board Schedule

Paragon Banking Group PLC ('PBG') & Paragon Bank PLC (the 'Bank')

Section 2:

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| 2.1 | Changes relating to the Group's capital structure and debt securities including reduction of capital, share issues (except under employee share plans), share buy backs (including the use of treasury shares), redemption or issue of debt |
| 2.2 | Major changes to the Group's corporate structure, including but not limited to, acquisitions and disposals of shares which are material relative to the size of the Group (taking into account initial and deferred consideration) |
| 2.3 | Changes to the Group's management and control structure |
| 2.4 | Any changes to the Company's listing or its status as a PLC |
| 2.5 | Related party transactions (as defined by the Listing Rules) |
| 3. | Financial reporting and controls |
| 3.1 | Approval of the half-yearly report and preliminary announcement of the final results* ¹ |
| 3.2 | Approval of the Annual Report and Accounts* |
| 3.3 | Approval of the dividend policy* |
| 3.4 | Declaration of the interim dividend and recommendation of the final dividend* |
| 3.5 | Approval of any significant changes in accounting policies or practices* |
| 4. | Internal controls |
| 4.1 | Establishing procedures to manage risk, oversee the internal control framework and determine the nature and extent of the principal risks the Group is willing to take in order to achieve its long-term strategic objectives including*: <ul style="list-style-type: none">• carrying out a robust assessment of the Group's emerging and principal risks*;• establishing procedures to identify emerging risks*;• approving the Group's risk appetite statements*;• receiving reports on, and reviewing the effectiveness of, the Group's risk and control processes to support its strategy and objectives*;• approving procedures for the detection of fraud, and the prevention of bribery and undertaking an annual assessment of these processes*;• approving an appropriate statement for inclusion in the Annual Report |

¹Items marked * are not considered suitable for delegation to a committee of the board, for example because of Companies Act 2006 requirements or because, under the recommendations of the UK Corporate Governance Code, they are the responsibility of an Audit, Nomination or Remuneration Committee, with the final decisions required to be taken by the board as a whole.

Matters Reserved for the Board Schedule

Paragon Banking Group PLC ('PBG') & Paragon Bank PLC (the 'Bank')

Section 2:

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| 4.2 | Following recommendations by the Company's Risk and Compliance Committee, approval of the Group's: <ul style="list-style-type: none">• annual internal capital adequacy assessment process (the 'ICAAP');• recovery and resolution plan (the 'RRP');• internal liquidity adequacy assessment process (the 'ILAAP'); and any other similar periodic re-assessments |
| 5. | Whistleblowing |
| 5.1 | Ensuring that the workforce can raise any matters of concern in confidence and, if they wish, anonymously and that there are no negative repercussions from doing so |
| 5.2 | Appointment of a whistleblowers' champion from among its members, to oversee the integrity, independence and effectiveness of the Group's whistleblowing arrangements |
| 5.3 | To routinely review the adequacy and security of the Company/Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and ensuring that there are arrangements in place for proportionate and independent investigation of such matters and for appropriate follow-up action |
| 6. | Contracts |
| 6.1 | Approval of major capital projects or any materially strategic contracts and maintaining oversight over execution and delivery |
| 6.2 | Major contracts over £5 million |
| 6.3 | Material acquisitions, mergers or disposals over £50 million or attracting a capital exposure or contingent liability over £5 million |
| 6.4 | Major investments (including the acquisition or disposal of more than 3% of the voting shares of any company or the making of any takeover offer) |
| 6.5 | Contracts of the Company/Group outside of the ordinary course of business, which expose the Company/Group to unlimited legal liability. Contracts which expose the Company/Group to unlimited legal liability but which the General Counsel considers to be within the normal course of business, may be approved by the Chief Executive Officer/Chief Financial Officer. In the event of doubt, the contract should be submitted to the Board for approval |
| 7. | Communication |

Matters Reserved for the Board Schedule

Paragon Banking Group PLC ('PBG') & Paragon Bank PLC (the 'Bank')

Section 2:

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| 7.1 | Ensuring regular dialogue and engagement with and communication of shareholders' views based on the mutual understanding of objectives, governance and performance against strategy, including committee chairs seeking engagement with shareholders on significant matters related to their areas of responsibility |
| 7.2 | Ensuring that the views of the Group's other key stakeholders have been considered in board discussions and decisions and monitoring engagement mechanisms, including those with the workforce, to ensure that they are effective |
| 7.3 | Approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting |
| 7.4 | Approval of all shareholder circulars, prospectuses and listing particulars* |
| 8. | Board membership and other appointments |
| 8.1 | Changes to structure, size and composition of the Board, following recommendations from the Nomination Committee* |
| 8.2 | Ensuring orderly succession planning for the Board and senior management in conjunction with the Nomination Committee so as to maintain an appropriate balance of skills, experience, and diversity within the Group and on the Board, with consideration also being given to the length of service of the Board as a whole and membership being regularly refreshed* |
| 8.3 | Appointments to the Board, following recommendation from the Nomination Committee* |
| 8.4 | Selection of the Chair of the Board and the Chief Executive* |
| 8.5 | Appointment of the Senior Independent Director, following recommendation of the Nomination Committee, to provide a sounding board for the Chair and to serve as intermediary for the other directors when necessary* |
| 8.6 | Membership length and chairship of Board committees following recommendations from the Nomination Committee* |
| 8.7 | Continuation in office of directors at the end of their term of office, when they are due to be re-elected by shareholders at the AGM and otherwise as appropriate* |
| 8.8 | Continuation in office of any director at any time, including the suspension or termination of service of an Executive Director as an employee of the Group, subject to the law and their service contract* |
| 8.9 | Appointment or removal of the Company Secretary* |
| 8.10 | Appointment, reappointment or removal of the External Auditor to be put to shareholders for approval in general meeting, following the recommendation of the Audit Committee* |
| 9. | Remuneration |

Matters Reserved for the Board Schedule

Paragon Banking Group PLC ('PBG') & Paragon Bank PLC (the 'Bank')

Section 2:

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| 9.1 | Determining a formal and transparent procedure for: (i) determining policy on executive director remuneration and (ii) determining the remuneration for the Chair, executive directors and senior management* | |
| 9.2 | Determining the remuneration of the Non-Executive Directors, subject to the Articles of Association and shareholder approval as appropriate | |
| 9.3 | The introduction of new share incentive plans, or major changes to existing plans, to be put to shareholders for approval following recommendation from the Remuneration Committee* | |
| 10. | Delegation of authority | |
| 10.1 | The responsibilities of the Chair, Chief Executive and Senior Independent Director which should be clearly established, set out in writing and agreed by the Board* | |
| 10.2 | Establishing Board committees and approving their Terms of Reference, and approving material changes thereto* | |
| 10.3 | Receiving reports from Board Committees on their activities* | |
| 11. | Corporate governance matters | |
| 11.1 | Undertaking a formal and rigorous annual evaluation of its own performance, that of its committees and individual directors, and the division of responsibilities, including a regular externally facilitated board evaluation at least every three years* | |
| 11.2 | Determining the independence of Non-Executive Directors following recommendation from the Nomination Committee* | |
| 11.3 | Considering the balance of interests between shareholders, employees, customers, regulators and other stakeholders* | |
| 11.4 | Review of the Group's overall corporate governance arrangements | |
| 11.5 | Receiving reports on the views of the Company's shareholders to ensure that they are communicated to the Board as a whole* | |
| 11.6 | Identifying, managing and authorising conflicts of interest where permitted by the Company's Articles of Association and other relevant regulation or policies. This includes identifying any conflicts that result from significant shareholdings and ensuring that the influence of third parties does not compromise or override independent judgement | |
| 12. | Policies | |
| 12.1 | Approval of high level policies which relate to the Group's values and standards such as: | |
| | <ul style="list-style-type: none"> • Market Abuse Regulations policies | <ul style="list-style-type: none"> • Equality, Diversity and Inclusion policy |
| | <ul style="list-style-type: none"> • Anti-Bribery and Corruption policy | <ul style="list-style-type: none"> • Health and Safety policy |
| | <ul style="list-style-type: none"> • Modern Slavery Act statement/policy | <ul style="list-style-type: none"> • Charitable donations policy |

Matters Reserved for the Board Schedule

Paragon Banking Group PLC ('PBG') & Paragon Bank PLC (the 'Bank')

Section 2:

| | • Whistleblowing policy | • Tax strategy and policy |
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| 13. | Other | |
| 13.1 | The making of political donations | |
| 13.2 | Approval of the appointment of the Group's principal professional advisers | |
| 13.3 | Prosecution, commencement, defence or settlement of litigation, or an alternative dispute resolution mechanism (above £1 million or being otherwise material to the interests of the Group) | |
| 13.4 | Settlement of material regulatory proceedings (above £500,000) | |
| 13.5 | Major changes to the Group's pension arrangements | |
| 13.6 | Any decision likely to have a material impact on the Group from any perspective, including, but not limited to, financial, operational, strategic or reputational or consequences that should be addressed by the Board as a matter of material business impact | |
| 13.7 | This schedule of Matters Reserved for the Board | |

Matters Reserved for the Board Schedule

Paragon Banking Group PLC ('PBG') & Paragon Bank PLC (the 'Bank')

Section 2:

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 | 2.4 (in part) 6.1 to 6.3, 8.3, 10.5, 11.1 (the policy on Market Abuse Regulation) | These are not applicable to the Bank as it is not a listed entity |