

Paragon Banking Group PLC

& Paragon Bank PLC

The Division of Responsibilities between the Chair, Chief Executive and Senior Independent Director

Approved: 24 June 2020

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Section 1: Overview

The UK Corporate Governance Code 2018 ('the Code') published by the Financial Reporting Council states that 'The responsibilities of the chair, chief executive, senior independent director, board and committees should be clear, set out in writing, agreed by the board and made publicly available'.

The division of responsibilities between the Chair of the Board, Chief Executive and Senior Independent Director ('the DoR') is set out in Section 2.

1.1 Board approval

Apportionment of responsibilities between the Chair and Chief Executive was previously approved by the Board on 29 September 2004 and reviewed with consequential amendments on 28 July 2016, 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 DoR shall apply. Where PBG or the Bank sit separately the DoR 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, on the date of adoption of these DoR 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 DoR, provided that a quorum of the relevant Board/Committee agrees and this derogation is minuted as such.
- 1.2.2 For the purpose of this DoR the term 'Group' shall mean, PBG and its subsidiaries as defined by the Companies Act 2006. Should the DoR be used solely for PBG 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 this DoR the term 'Company' shall mean, when used as a joint document, both PBG and the Bank. Where the DoR is used for either PBG or the Bank then it shall mean the relevant company only.
- 1.2.4 For the purpose of this DoR the term 'Board' shall mean, when used as a joint document, the Boards of both PBG and the Bank. Where the DoR is used as either a DoR of PBG or the Bank then it shall mean the relevant Board only.

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Section 2: The Division of Responsibilities between the Chair, Chief Executive and Senior Independent Director

A	Role of Chair	The Chair leads the Board and is responsible for its overall effectiveness in directing the Company/Group. The Chair is pivotal in creating the conditions for overall Board and individual director effectiveness, setting clear expectations concerning the style and tone of Board discussions and ensuring the Board has effective decision-making processes and applies sufficient challenge to major proposals.
1A	Meetings:	<ul style="list-style-type: none"> • Chairing Board and General Meetings and, if relevant, those of the Nomination Committee, demonstrating objective judgement throughout their tenure and promoting a culture of openness and debate • Running the Board and ensuring its effectiveness in all aspects of its role, including regularity and frequency of meetings • Setting the Board agenda, taking into account the issues and concerns of all Board members. The agenda should be forward looking, concentrating on strategic matters, performance, value creation, culture, governance, stakeholders and accountability, and ensuring that issues relevant to these areas are reserved for board decision • Ensuring that there is appropriate delegation of authority from the Board to executive management • Ensuring that the directors receive accurate, timely and clear information, including that on the Company's and the Group's current performance, to enable the Board to take sound decisions, monitor effectively and provide advice to promote the success of the Company • Managing the Board to allow enough time for discussion of complex or contentious issues, in particular strategic. The Chair should ensure that sufficient time is allowed for debate, and that directors (particularly non-executive directors) have sufficient time to consider critical issues and obtain answers to any questions or concerns they may have and are not faced with unrealistic deadlines for decision making • Ensuring that the Board has effective decision-making processes and applies sufficient challenge to major proposals
2A	Directors:	<ul style="list-style-type: none"> • Ensuring the Board has an appropriate combination of independent non-executive and executive directors • Facilitating the effective contribution of and encouraging active engagement by all members of the Board by drawing on their skills, experience and knowledge • Ensuring and fostering constructive relations between the executive and non-executive directors • Holding meetings with the non-executive directors without the executives present • Developing a productive working relationship with the Chief Executive, providing support and advice, while respecting executive responsibility
3A	Induction, development and performance evaluation:	<ul style="list-style-type: none"> • Ensuring that new directors participate in a full, formal and tailored induction programme, providing guidance and mentoring as appropriate • Ensuring that the development needs of directors are identified and, with the Company Secretary having a key role, that these needs are met. The directors should be able to continually update their skills and the knowledge and familiarity with the Company/workforce required to fulfil their role on the Board and its committees • Identifying the development needs of the Board as a whole to enhance its overall effectiveness as a team • Ensuring that the Board acts as a 'coach/sounding board' as appropriate for the Chief Executive

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		<ul style="list-style-type: none"> Leading the annual board evaluation ensuring the performance of the Board, its committees and individual directors are evaluated regularly with support from the senior independent director as appropriate and acting on the results of such evaluation by recognising the strengths and addressing the weaknesses of the Board. Implementing regular externally facilitated board evaluations every three years and considering ways of obtaining feedback on the performance of the Board/individual directors regularly from the workforce and other stakeholders. Where appropriate, through the Nomination Committee, proposing that new members be appointed to the Board or seeking the resignation of others and that committee membership is periodically refreshed and individual independent non-executive directors are not over-burdened when deciding the Chairship and/or membership of committees
4A	Relations with shareholders:	<ul style="list-style-type: none"> Ensuring effective communication with shareholders Seek regular engagement with major shareholders to understand their issues and concerns, in particular discussing governance, strategy and remuneration with them Ensuring that the views of shareholders are communicated to the Board as a whole so that all directors develop an understanding of their views
5A	AGM:	<ul style="list-style-type: none"> Arranging for the Chairs of board committees to be available to answer questions at the AGM and for all directors to attend
6A	In addition, the Chair should:	<ul style="list-style-type: none"> Uphold the highest standards of integrity and probity Lead, set and uphold, in conjunction with the Board as a whole, the Group's culture, values and behaviours and ensuring that these are aligned with the Group's prudent risk appetite Consult the Senior Independent Director on board matters in accordance with the Code e.g. so that the SID acts as a sounding board for the Chair Set the agenda, style and tone of board discussions to promote effective decision making and constructive debate Ensure that the Board determines the nature, and extent, of the significant risks the Company/Group is willing to embrace in the implementation of its strategy Ensure all directors are aware of and able to discharge their statutory duties and continually update their skills, knowledge and familiarity with the Company/Group to fulfil their role both on the Board and on committees Ensure a clear structure for, and the effective running of, board committees Ensure effective implementation of board decisions Promote effective relationships based on trust, mutual respect and open communication between executive and non-executive directors both inside and outside the boardroom, ensuring an appropriate balance of skills and personalities Build an effective and complementary board, and with the Nomination Committee, initiate change and plan succession in board appointments (except the succession of his/her role as Chair) subject to board and shareholder approval Ensure an appropriate balance is maintained between the interests of shareholders and other key stakeholders (workforce, customers, suppliers, the community and regulators) Ensure the long-term sustainability of the business Ensure the continual improvement in quality and calibre of the executives

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		<ul style="list-style-type: none"> • Provide coherent leadership of the Group, including, in conjunction with the Chief Executive, representing the Group to customers, suppliers, regulators, government, shareholders, financial institutions and the media • Ensure that the Board listens to the views of shareholders and other key stakeholders (workforce, customers, suppliers, the community and regulators)
B	Role of the Chief Executive	The Chief Executive is accountable and reports to the Board and is responsible for running the Group's business within the authority limits delegated by the Board:
1B	Business strategy and management:	<ul style="list-style-type: none"> • 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) • The successful achievement of objectives and execution of strategy following presentation to, and approval by, the Board • Recommending to the Board an annual budget and financial plan and ensuring their achievement following Board approval • Optimising as far as is reasonably possible the use and adequacy of the Group's resources • Ensuring that the Board knows the executive directors' views on business issues and explaining (in a balanced way) any divergence of view in the executive team before a final decision on an issue is taken • Making certain that the Board is made aware of the workforce's views gathered between management and the workforce on relevant issues
2B	Investment and financing:	<ul style="list-style-type: none"> • Examining all trade investments and major capital expenditure proposed by subsidiary companies and the recommendation to the Board of those which, in a Group context, are material either by nature or cost • Identifying and executing acquisitions and disposals, approving major proposals or bids • Leading geographic diversification initiatives • Identifying and executing new business opportunities outside the current core activities
3B	Risk management and controls:	<ul style="list-style-type: none"> • 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 appropriate internal controls are in place
4B	Board committees:	<ul style="list-style-type: none"> • Making recommendations on remuneration policy, executive remuneration and terms of employment of the senior executive team to the Remuneration Committee • Making recommendations to the Nomination Committee on the role and capabilities required in respect of the appointment of executive directors
5B	Communication:	<ul style="list-style-type: none"> • Providing a means for timely and accurate disclosure of information, including an escalation route for issues • Ensuring effective communication with shareholders and other key stakeholders (workforce, customers, suppliers, the community and regulators)
6B	Other:	<ul style="list-style-type: none"> • Setting Group HR policies, including management development and succession planning for the senior management team and approving the appointment and termination of employment of members of that team

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7B	The duties which derive from these responsibilities include:	<ul style="list-style-type: none"> • Leading the executive directors and the senior management team in the day to day running of the Group's business, including chairing Executive Committees and communicating its decisions/recommendations to the Board • Ensuring that the Board is made aware of the views of senior management on business issues in order to improve the standard of discussion in the boardroom and explain in a balanced way any divergence of view • Provide accurate, clear and up to date board papers and supporting information in advance for informed debate and challenge at board meetings which is of a quality and comprehensiveness to enable the board directors to discharge their duties • Provide directors with the necessary resources to develop and update their skills and obtain knowledge of the Group including access to the Group's operations and workforce • 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 • Supervising the activities of subsidiary companies' senior management, including ensuring the development of senior teams and succession planning • Developing high level policies which relate to the Group's values and standards for Board approval and then implementing them • 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 • Keeping the Chair informed on all important matters
C	Role of the Senior Independent Director ('SID')	The Senior Independent Director acts as a sounding board for the Chair and as an intermediary for other directors. The SID is responsible for holding annual meetings with non-executives without the Chair present, to appraise the Chair's performance. The SID would also be expected to meet with non-executives on other such occasions when necessary:
1C	Meetings with directors:	<ul style="list-style-type: none"> • Works closely with the Chair, acting as a sounding board and providing support in delivering their objectives • Support the Chair in relation to the annual board evaluation • Acts as an intermediary for other directors as and when necessary • Leading the Chair's evaluation on the other directors' behalf, including meeting at least annually with non-executives to review the Chair's performance and carrying out succession planning for the Chair's role, working closely with the Nomination Committee
2C	Relations with shareholders and stakeholders:	<ul style="list-style-type: none"> • Is available to shareholders and other non-executives to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication (i.e. the Chair, the Chief Executive or Chief Financial Officer) or if such contact is inappropriate

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		<ul style="list-style-type: none">• Attends sufficient meetings with major stakeholders to obtain a balanced understanding of their issues and concerns• When called upon, seek to meet a sufficient range of major shareholders in order to develop a balanced understanding of their views• Act independently to represent the needs of the Group's core stakeholders, including shareholders, the workforce and customers
3C	Other:	<ul style="list-style-type: none">• When the Group is undergoing a period of stress, the SID's role becomes critically important. The SID would be expected to work with the Chair and other directors and/or shareholders to resolve significant issues. The SID should be prepared to intervene in order to maintain the stability of the Board and Group, such as when there is a dispute between the Chair and the Chief Executive, where shareholders have expressed concerns that are not being addressed by the Chair/Chief Executive, where the entire Board does not support the Group's strategy, where there is a particularly close relationship between the Chair and the Chief Executive, where decisions are being made without full Board approval, or where insufficient regard or priority is being given to succession planning.

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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	4A and 5A	These are not applicable to Paragon Bank PLC as it is not a listed entity