



Paragon Bank PLC

Remuneration Code Pillar III Disclosure

30 September 2016

REMUNERATION CODE PILLAR III DISCLOSURE

Year ended 30 September 2016

Paragon Bank PLC falls within proportionality level 3 as defined by PRA supervisory statement LSS 8/13 'Remuneration Standards: the application of proportionality' (updated June 2015) and the Pillar III disclosure set out below has been prepared on this basis.

Governance

The Board of Directors of Paragon Bank PLC ('the Bank') has delegated the responsibility for oversight of its remuneration policy and the remuneration decision making process to its Remuneration Committee ('Remco').

The Remco comprises three non-executive directors and is chaired by a non-executive director. The terms of reference for the Remco have been approved by the Bank's Board of Directors. The Remco's mandate is to:

1. Determine Remuneration Policy in relation to fixed and variable pay for employees
2. Ensure that executive directors and senior employees of the Bank are fairly rewarded for their individual contributions to overall performance, having regard to the importance of retention, motivation, risk appetite and ensuring good customer outcomes are achieved
3. Determine which employees are Remuneration Code Staff ('Code Staff') for the purposes of the Remuneration Code. The Bank consider the following to be Code Staff:
 - i. Paragon Bank executive directors
 - ii. Paragon Bank independent non-executive directors; and
 - iii. Employees performing selected roles which have significant influence on the firm's risk profile including selected control functions, as detailed under the Senior Manager Regime and approved as holding a Senior Management Function role
4. Determine levels of fixed and variable pay for individual Code Staff and, as appropriate, for certain schemes, apply claw back
5. Ensure that its decisions are consistent with an assessment of the Bank's financial condition and future prospects and in the interests of its shareholder (The Paragon Group of Companies PLC) and other stakeholders; and
6. Monitor that the Bank is fully compliant with the requirements of the PRA / FCA's Remuneration Code

Information on the remuneration of the directors and senior personnel of the Paragon Group of Companies PLC, including the Bank, is contained in the Directors' Remuneration Report presented as section B5 of its Accounts. This report includes:

- Details of the operation of the Remuneration Committee, including its membership and the number of meetings held
- The design of variable remuneration, including share based awards, and the vesting and deferral criteria applied
- Details of the Group's external advisers on remuneration
- The Group's remuneration policy statement, which includes policies on levels and forms of remuneration, initial arrangements and severance provisions

Link between pay and performance

Fixed pay (salary and benefits) is primarily set taking into account market rates and benchmarks as appropriate. Variable pay is determined via a combination of long-term performance measures and individual performance ratings;

Long term business performance measures

The long term business performance measures are documented in long term incentive schemes which are operated and provided by the Bank's parent company The Paragon Group of Companies PLC, details of which are set out in the accounts of that Company and the Bank.

Individual performance ratings

Individual performance ratings are part of the annual review process and reflect individual contribution against personal objectives. Appropriate risk conduct is reflected in the annual performance objectives, and subsequent rating of the employee.

Aggregate quantitative information on remuneration

Year ended 30 September 2016

14 Code Staff	Total Remuneration = £1,880,077	
	Senior Management*	Totals
Fixed remuneration	£1,043,539	£1,043,539
Variable remuneration – cash	£420,910	£420,910
Number of staff	14	14
Cash paid in year	£1,464,449	£1,464,449
Variable remuneration - deferred in shares †	£415,628	£415,628
Total deferred in current year	£415,628	£415,628

Year ended 30 September 2015

14 Code Staff	Total Remuneration = £2,601,464	
	Senior Management*	Totals
Fixed remuneration	£1,263,064	£1,263,064
Variable remuneration – cash	£914,048	£914,048
Number of staff	14	14
Cash paid in year	£2,177,112	£2,177,112
Variable remuneration - deferred in shares †	£424,352	£424,352
Total deferred in current year	£424,352	£424,352

No staff, other than senior managers had a material impact on the risk profile of the firm in the year. Code Staff include two independent non-executive directors, the independent Chairman and senior business risk, compliance and control personnel.

* Senior management are those staff who hold an approved SMF role under the Senior Managers Regime, introduced from March 2016. Prior to this date senior management were those staff who were Approved Persons. Due to the change in regulations during the year, a number of individual payments have been included on a pro rata basis to represent the number of whole months they held a regulatory authorised role.

† Share based remuneration is valued on the basis of the market value of shares granted at the date of grant.

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