



GREEN BOND INVESTOR REPORT

Paragon Banking Group PLC

May 2022

paragon

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INTRODUCTION

CLIMATE CHANGE PUTS AT RISK OUR COLLECTIVE FUTURE AND IS ONE OF THE BIGGEST CHALLENGES FACED BY THE WORLD TODAY.

We support the UK's ambition to reduce greenhouse gas emissions to net zero by 2050 and are committed to helping generate sustainable economic growth in the transition to a low-carbon economy. We want to better understand the impact of our lending on the climate and help our customers fulfil their environmental responsibilities, driving energy efficiency in the Private Rented Sector.

Our Green Bond Framework reflects our commitment to embed sustainability throughout our strategy, operations and product offerings including our funding and capital raising activities.

To find out more about sustainability at Paragon please visit the [Sustainability overview](#) on our website.

This investor report is published annually, at least until full allocation of all the proceeds, and thereafter in case of any material change to the allocation, to meet our reporting commitments as outlined in the Green Bond Framework. The investor report contains details of the allocated Eligible Green Loan Portfolio (the "Green Loan Portfolio"), consisting of newly originated buy-to-let mortgages since March 2021 and quantitative environmental impact reporting.

Visit our website to view further details on [Paragon's Green Bond Framework](#)



Paragon's sustainability highlights

Throughout 2021, we continued to embed sustainability across our business, including our governance, strategy and disclosures and our approach continues to evolve. Some of our 2021 sustainability highlights are as follows:

- We established a Sustainability Committee, chaired by our External Relations Director, to examine sustainability considerations across Paragon's businesses and, in particular, the impact of emissions generated throughout our value chain
- In December we published our inaugural Responsible Business Report which demonstrates how sustainability – one of our key strategic priorities – is embedded across Paragon, together with the actions we are taking in areas where we believe we can make the greatest positive impact
- We launched a range of buy-to-let green mortgages and further advance products, with the aim to incentivise landlords to invest in more energy efficient properties
 - Initially, we introduced green mortgages for properties with an Energy Performance Certificate ("EPC") rating of C or higher, offering up to 80% LTV on preferential terms. Since then, we have expanded our green mortgage range to offer a green alternative to every mortgage product for any customers applying with an EPC rating of C or higher
 - The green mortgage product range has supported our Green Bond allocation of proceeds to more energy efficient properties with EPC rating of A or B
 - The product range additionally outlines our support for the UK Government's initiative to upgrade as many private rented sector homes as possible to EPC rating C by 2030
- Across our commercial divisions, we continue to expand our product range in support of our customers as they become more sustainable:
 - Through our "financing a better future" campaign we are offering tailored finance for green assets to our SME customers and brokers
 - During 2021, we extended our motor finance credit policy to begin lending on electric vehicles
 - In November 2021, we launched a green homes initiative, offering a financial incentive to developments constructing EPC A-rated homes
- In February 2022, we launched our first green savings product aimed at helping to improve the energy efficiency of UK homes
- We continue to enhance our climate-related financial disclosures and reported our scope 3 financed emissions in line with Partnership for Carbon Accounting Financials ("PCAF") for the first time in our inaugural Responsible Business report. As an official TCFD supporter, Paragon is committed to reporting in accordance with its recommendations

More information on Paragon's approach to sustainability is outlined in our [Responsible Business Report](#)



GREEN BOND FRAMEWORK OVERVIEW

PARAGON'S GREEN BOND FRAMEWORK (THE "FRAMEWORK") PROVIDES A CLEAR AND TRANSPARENT CRITERIA TO IDENTIFY INVESTMENTS WHICH SUPPORT THE TRANSITION TO A LOW CARBON ECONOMY AND CREATE LONG-TERM VALUE FOR OUR STAKEHOLDERS.

Summary

Use of Proceeds	The Eligibility Criteria for Paragon's Green Bonds is for Green Residential Real Estate, where new or existing residential buildings belonging to the top 15% low carbon buildings in the region, include buildings certified, or to be certified, with an Energy Performance Certificate (EPC) label "A" or "B" in England and Wales.
Process for Project Evaluation and Selection	The Sustainability Committee is specifically responsible for reviewing and approving, as appropriate, Eligible Green Loans based on the defined Eligible Categories listed by the Use of Proceeds on a quarterly basis.
Management of Proceeds	Paragon intends to allocate an amount equal to the proceeds from the issue of Green Bonds to an Eligible Green Loan Portfolio. Paragon intends to fully allocate the proceeds from any Green Bonds within 24 months of 25 March 2021, the date the Bonds were issued.
Reporting	Paragon will publish a Green Bond Report (the "Report") annually, at least until full allocation of all the proceeds, and thereafter in case of any material change to the allocation, on its website.
External Review	Paragon's Green Bond issuance is supported by external reviews. Paragon will release on an annual basis, at least until full allocation of all the proceeds, starting one year after issuance, a verification or assurance report, by Sustainalytics, including the allocation of the bond proceeds to Eligible Green Loans and compliance of the allocated loans with the selection process and reporting metrics.



GREEN BOND REPORTING

ALLOCATION REPORTING

Summary

Issuer	Paragon Banking Group PLC
Notes	Fixed Rate Reset Callable Subordinated Tier 2 Notes
Currency	GBP
Aggregate Principal Amount	£150.0 million
ISIN	XS2312738599
Pricing date	17 March 2021
Issue Date	25 March 2021
Reset date	25 September 2026
Maturity date	25 September 2031
Category of Eligible Green Loans	All funds will be allocated to Green Residential Real Estate with an EPC rating of A and/or B.
Number of Eligible Green Loans	595
Total amount of proceeds allocated to Eligible Green Loans	£142.1 million
Bond proceeds allocated	95%
Balance of unallocated proceeds	£7.9 million - The unallocated proceeds are all held and/or invested in cash or other short term liquid instruments in accordance with Paragon's liquidity policy.
Finance or Refinance	100% Finance
Reporting Date	31 March 2022
SPO	Sustainalytics

Geographic distribution of Eligible Green Loans

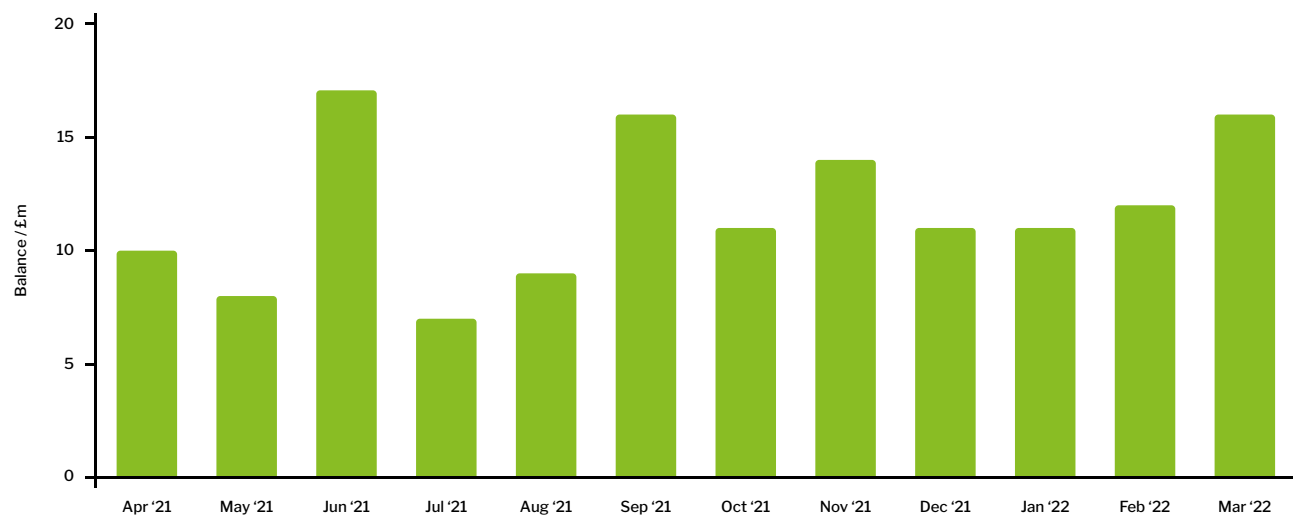


IMPACT REPORTING

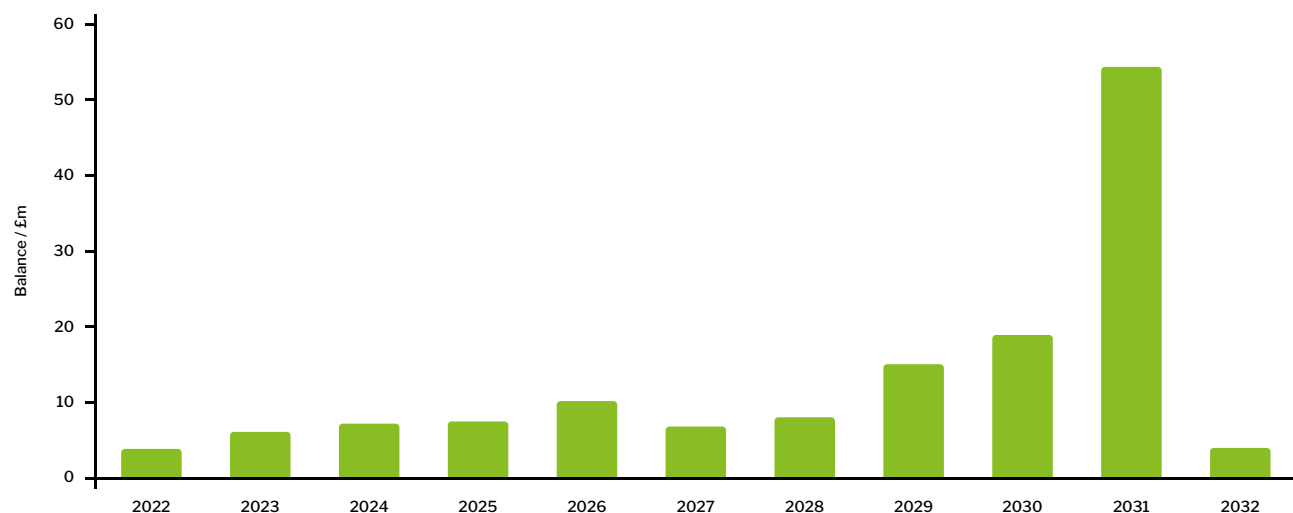
Green Loan Portfolio environmental characteristics

EPC Band	No. of Eligible Green Loans ^a	Sum of allocated Eligible Green Loans	% by balance	Estimated average annual CO ₂ emission intensity (KgCO ₂ /m ² /year)
A	6	£1.9m	1.3%	
B	589	£140.2m	98.7%	
Green Loan Portfolio	595	£142.1m	100.0%	15.60

Seasoning of Eligible Green Loans by advance month

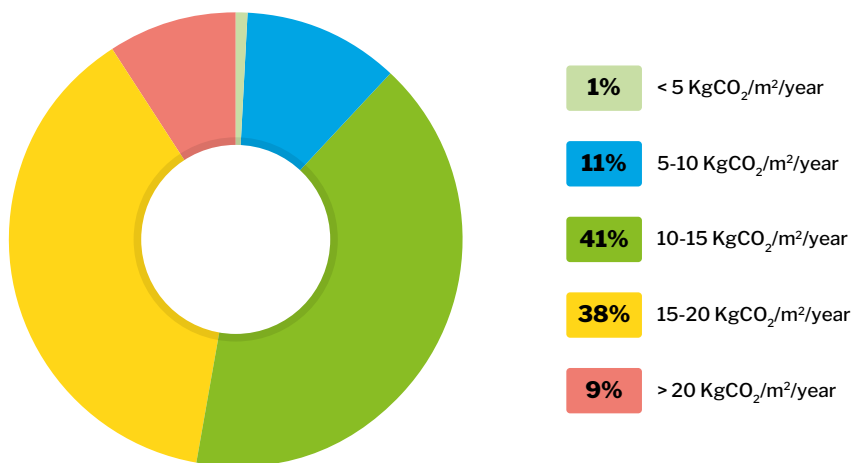


EPC expiry date of Eligible Green Loans



^aLoans may be secured by multiple properties which each have an individual EPC rating. In these cases each property is required to have an EPC rating of A and/or B.

Emission intensity of Green Loan Portfolio KgCO₂/m²/year



ENVIRONMENTAL IMPACT REPORTING

Environmental impact reporting results:

This section of the report shows the results and methodology for estimating potential avoided carbon emissions versus the national EPC average for the properties included in the Eligible Green Loan Portfolio. All calculations are based on loan data as of 31 March 2022 and on the most recent EPC data release for England and Wales^b (the “EPC dataset”).

	No. of Eligible Green Loans	Sum of allocated Eligible Green Loans	Domestic Baseline emission intensity (KgCO ₂ /m ² /year)	Estimated average annual CO ₂ emission intensity (KgCO ₂ /m ² /year)	Estimated ex-ante annual avoided emissions (tCO ₂ /year)	Estimated annual carbon emissions avoided per every £1m of proceeds allocated (tCO ₂ /year/£1m)
	595	£142.1m	42.55	15.60	-1,017.42	-7.16
Methodology described below			(1)	(2)	(3)	(4)

Information on the methodology and calculations for these environmental impact assessments are disclosed below.

Environmental impact reporting methodology

(1) Baseline

Portfolio emissions intensity refers to financed emissions per unit of activity data. In the case of Green Residential Real Estate this is CO₂/m²/year.

The avoided emissions calculation compares the estimated average emission intensity of the properties in the Green Loan Portfolio against a comparable domestic baseline. The baseline used to calculate the avoided emissions is the average estimated emission intensity of all properties in the most recent EPC data across England and Wales. This provides us with a reasonable proxy for the average emissions intensity across properties in England and Wales. The average has been calculated by dividing the total emissions by the total floor area of all valid EPCs^c in the EPC data set.

Domestic baseline emission intensity (KgCO₂/m²/year) =

$$\frac{\Sigma \text{ Total emissions of all valid EPCs in the EPC dataset}}{\Sigma \text{ Total floor area of all valid EPCs in the EPC dataset}}$$

	EPC dataset
Total emissions (KgCO ₂ /year)	51,798,830,000
Total floor area (m ²)	1,217,288,757
Domestic Baseline emission intensity (KgCO ₂ /m ² /year)	42.55

^bThe Green Loan Portfolio uses EPC data as of the 31 March 2022. The latest EPC dataset at the time of writing the report contains all lodgement up until 31 December 2021. Due to this delay in updating the EPC dataset the baseline has a separate reference date.

^cThe EPC dataset contains duplicate addresses where a newer EPC has been recorded as well as expired EPCs. These have been excluded from the baseline calculation.

(2) Green Loan Portfolio average emission intensity

The average emissions intensity of the Green Loan Portfolio is derived as follows; this approach is aligned with the recommendation of the Science based target initiative (SBTi)^d:

- i). Measure CO₂ emissions of the properties in the portfolio
- ii). Calculate the share of the properties' emissions that should be attributed to the financial institution
- iii). Divide the sum of the attributed emissions (CO₂) of all loans by the sum of the attributed activity data (m²) of all properties in portfolio

As per the guidance of the Partnership for Carbon Accounting Financials (PCAF)^e, Paragon will apply an attribution factor to the impact values calculated. When calculating financed emissions, a building's annual emissions are attributed to the mortgage provider using a loan-to-value approach. Thus, the attribution is equal to the ratio of the outstanding amount at the time of emissions accounting to the property value at loan origination. This approach has been applied so that Paragon is only attributed the emissions produced or avoided due to the portion of the property it has financed.

Aligned with PCAF standard the loan attribution factor is calculated as follows:

$$\text{Attribution factor} = \frac{\text{Loan outstanding amount}}{\text{Property value at origination}}$$

Green Loan Portfolio average emission intensity (KgCO₂/m²/year) =

$$\frac{\sum \text{All eligible loans (Property emissions X Attribution factor)}}{\sum \text{All eligible loans (Property floor area X Attribution factor)}}$$

	Green Loan Portfolio
Total attributed emissions (KgCO ₂ /year)	588,900
Total attributed floor area (m ²)	37,751
Average emission intensity (KgCO ₂ /m ² /year)	15.60

The average emission intensity of the Green Loan Portfolio is 15.60 KgCO₂/m²/year, which is 63% lower than the EPC dataset average of 42.55 KgCO₂/m²/year. The lower emissions of the properties in the Green Loan Portfolio is the basis of which we have estimated the avoided emissions.

(3) Estimated ex-ante annual avoided emissions

To calculate the avoided emissions we compare the emission intensity of each property in the Green Loan Portfolio to the baseline emission intensity. The difference is then multiplied by the floor area of the property to get the estimated avoided emissions due the higher energy efficiency of the properties in the Green Loan Portfolio^f. We continue to apply the attribution factor in line with the PCAF standard. The formula is as follows:

Annual estimated avoided emissions (tCO₂/year) =

$$\sum \text{All eligible loans ((Property emission intensity - Baseline emission intensity) X Property Floor Area X Attribution factor)}$$

^dFinancial institutions - Science Based Targets

^eThe Global GHG Accounting and Reporting Standard for the Financial Industry

^fFor loans with multiple properties the average emissions intensity of all the properties is found, and the total floor area of all properties is used to calculate the avoided emissions.

(4) Estimated annual carbon emissions avoided per every £1m of proceeds allocated

This calculation involves dividing the avoided emissions by the total amount allocated. The formula is as follows:

Annual carbon emissions avoided per every £1m of proceeds allocated (tCO₂/year/£1m)=
$$\frac{\sum \text{All eligible loans } ((\text{Property emission intensity} - \text{Baseline emission intensity}) \times \text{Property Floor Area} \times \text{Attribution factor})}{\sum \text{All eligible loans (Loan outstanding amount)}}$$

	Green Loan Portfolio
Estimated annual avoided emissions (tCO ₂ /year)	-1,017.42
Sum of allocated Eligible Green Loans (£m)	£142.1m
Annual carbon emissions avoided per every £1m of proceeds allocated (tCO ₂ /year/£1m)	-7.16

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In addition, it should be noted that all of the expected or estimated benefits of the projects as described within the relevant Green Bond documentation may not be achieved. Changes to conditions including, but not limited to market, political, economic, government policy, laws, rules and regulations could limit the ability to achieve the expected or estimated benefit of the initiatives included in any of Paragon’s Green Bonds. Investors in Paragon’s Green Bonds should be aware that eligible green projects may not deliver the green benefits anticipated or estimated, on this basis, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Paragon.





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