Green Bond Investor Report

Paragon Banking Group PLC

May 2024

CONTENTS

INTRODUCTION

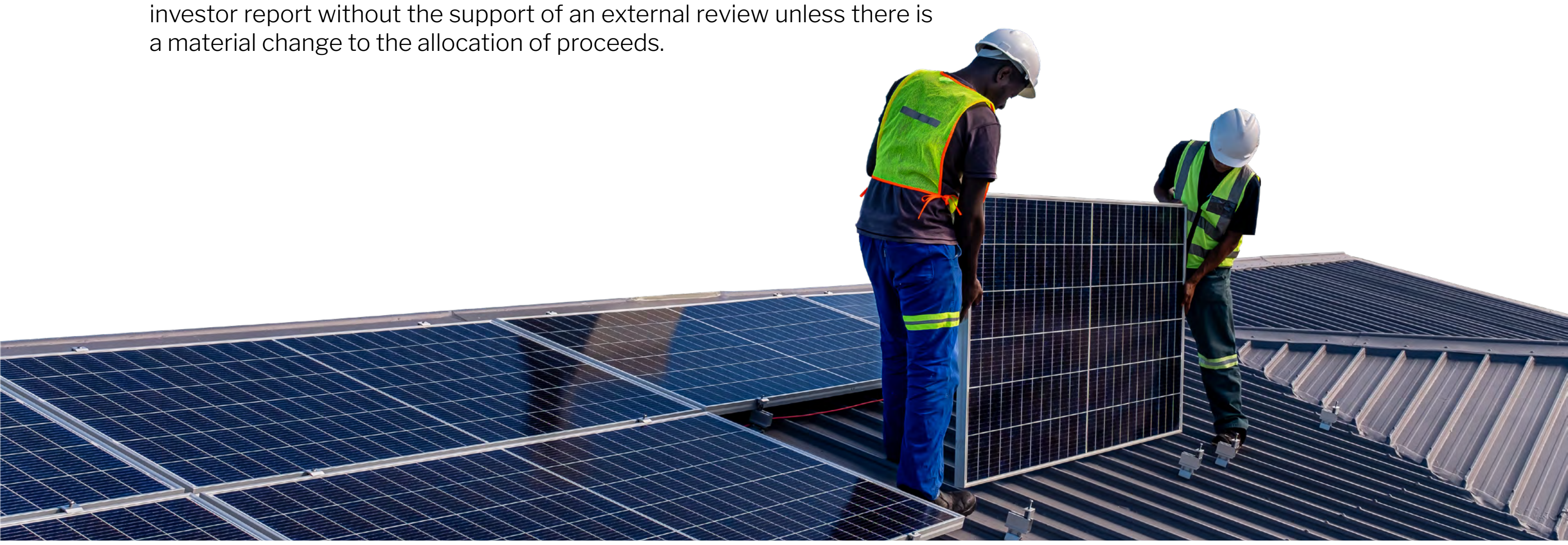
Climate change puts our collective future at risk and is one of the biggest challenges faced by the world today.

Decarbonisation and supporting the UK ambition to reduce greenhouse gas emissions to net zero by 2050 is of critical importance. We have made an aligned commitment to achieve net zero by 2050 but in doing so we recognise that this cannot be achieved in isolation and that our commitment will not be achieved without significant and continued support from government policy and industry. 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: Sustainability | Paragon Banking Group

This investor report is published annually and goes beyond our reporting commitments as outlined in the Green Bond Framework ("the Framework"). The investor report contains details of the fully allocated Eligible Green Loan Portfolio (the "Green Loan Portfolio"), consisting of newly originated buy-to-let mortgages by Paragon Banking Group PLC since March 2021 secured against properties with A/B Energy Performance Certificates and quantitative environmental impact reporting.

Following full allocation last year, Paragon will annually publish the investor report without the support of an external review unless there is a material change to the allocation of proceeds.



Paragon's sustainability highlights

We continue to make progress across our areas of focus, which we first set out in our inaugural **Responsible Business Report** in 2021. We publish this on an annual basis and our latest report is available **here**. The focus areas make up our ESG landscape which we continue to positively influence, improving the environment in which we live and work. Some of our ongoing sustainability highlights are as follows:

- We have committed to be operationally net zero by 2030 and this year achieved a 42% reduction in market-based emissions compared to our 2019 baseline. In support of our 2030 target, we also offset our 2023 operational footprint carbon emissions with the purchase of certified carbon offsets. We understand that offsetting is not a long term solution but this initiative aims to mitigate current emissions whilst incentivising long term action by applying an internal carbon price across our operations.
- We continue to have a significant presence in key forums for sustainable financing, helping to positively influence market-wide change. Forums such as UK Finance, Bankers for Net Zero and the Partnership for Carbon Accounting Financials (PCAF) enable us to collaborate and influence policy which catalyses shorter term action.

- We continue to provide a range of green mortgage and further advance products incentivising our landlord customers to invest in more efficient properties. In support of this, our credit policy allows applicants to apply for properties with solar panels. We are also continuing to develop retrofit options to support our customers with a property rating below EPC C as they transition.
- We continue to offer tailored finance for green assets to our SME customers and brokers, and have established Green Champions across the SME lending division to begin targeting more sustainable lending. Examples of how we have helped sustainable businesses and customers become more sustainable is available in our news releases and case studies on our website. One example is the funding provided for the **installation of solar panels on the roof of the premises of carton board packaging company** Cartonage.
- This year, across our development finance business, we have increased the funding for our Green Homes initiative from £200 million to £300 million, following the positive initial uptake, supporting and incentivising housebuilders to develop new domestic properties with the highest energy performance standards.
- Across our motor finance division we continue to expand our product range to include lending on battery electric vehicles including battery electric light commercial vehicles.

- We have continued to perform our annual climate change scenario analysis exercise to identify key drivers of climate change risk and opportunities across the Group. This year's assessment utilises the outputs of the Climate Financial Risk Forum (CFRF) scenario analysis working group, of which the Group is a member, and the results are delivered as part of the 2024 ICAAP (Internal Capital Adequacy Assessment Process).

GREEN BOND FRAMEWORK OVERVIEW

Paragon's Green Bond Framework provides a clear and transparent criteria to identify investments which support our transition to a low carbon economy and creates 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, which reports to the Executive Committee and Board on a regular basis, is specifically responsible for reviewing and approving, as appropriate, Eligible Green Loans ("Green Loans") based on the defined Eligible Categories listed by the Use of Proceeds on a quarterly basis.
Management of Proceeds	Last year's Green Bond Report ("Report") was produced as at 31 March 2023 to align with our financial reporting calendar. It contained the full allocation of the proceeds from the issue of Green Bonds to the Green Loan Portfolio. This year's Report contains the updated full allocation of the Bond proceeds as of 31 March 2024. The change in the allocated Green Loans in the Green Loan Portfolio from last year's Report can be attributed to an increase in the number of available eligible loans. The selection of the portfolio has then been prioritised to include more energy efficient and lower emissions Green Loans causing a change in the mix in the portfolio.
Reporting	Following full allocation achieved last year, Paragon will annually publish this Report without the support of an external review unless there is a material change to the allocation of proceeds.
External Review	Paragon's Green Bond issuance is supported by external reviews until the full allocation of the proceeds. Paragon has previously released on an annual basis, a verification or assurance report, by Sustainalytics. Full allocation of proceeds was achieved last year and there has been no material change to the allocation of proceeds. Therefore, an external review has not been conducted for this Report.

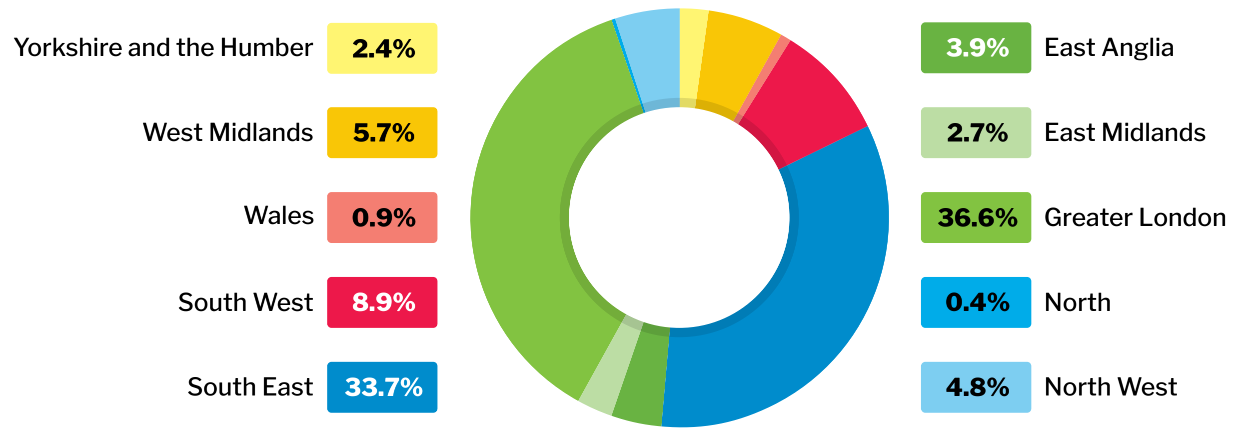
GREEN BOND REPORTING

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 Green Loans	All funds will be allocated to Green Residential Real Estate with an EPC of A and/or B
Number of Green Loans	431
Total amount of allocated Eligible Green Loans	£150.1 million
Bond proceeds allocated	100%
Balance of unallocated proceeds	£0.0 million
Finance or refinance	100% finance
Reporting date	31 March 2024
SPO	Not required

Geographic distribution of Eligible Green Loans

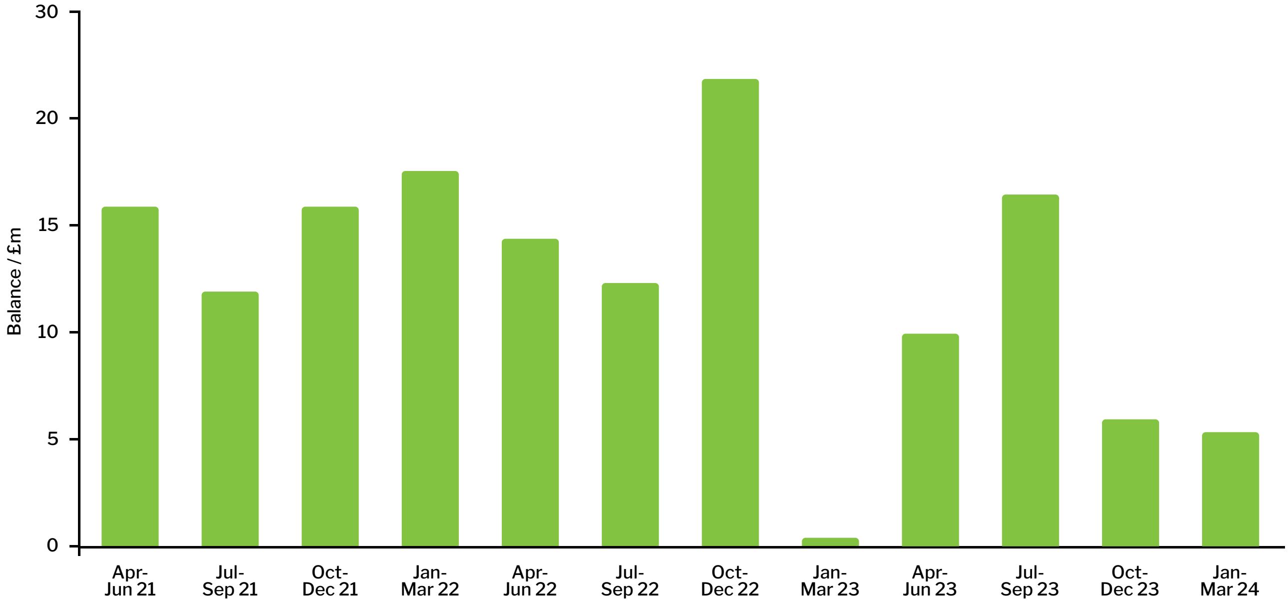


Impact reporting

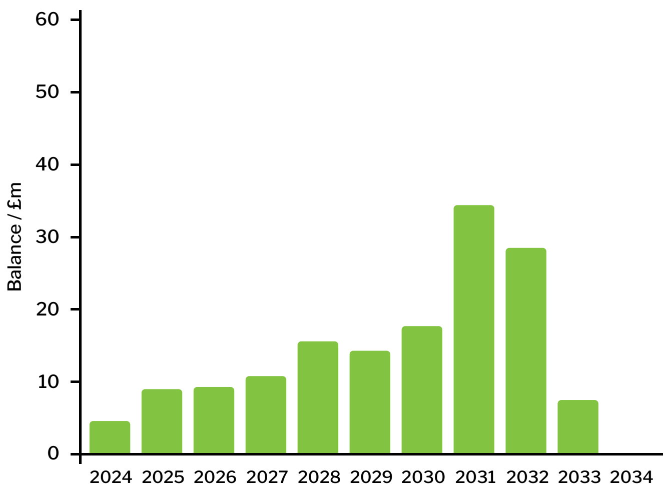
Eligible Green Loan Portfolio environmental characteristics

EPC Band	No. of Loans[1]	Sum of allocated Eligible Green Loans	% by balance	Estimated average annual CO_2e emissions intensity ($KgCO_2e/m^2/year$)
A	24	£7.0m	4.7%	
B	407	£143.1m	95.3%	
Green Loan Portfolio	**431**	**£150.1m**	**100.0%**	**11.13**

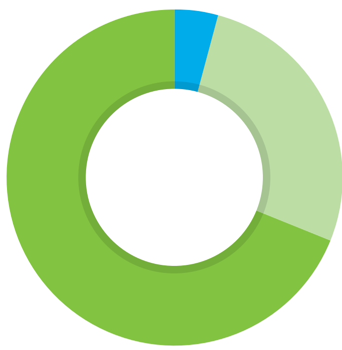
Seasoning of loans by advance month



EPC expiry date of eligible loans



Emissions intensity of Green Loan Portfolio $KgCO_2e/m^2/year$



[1]Loans may be secured by multiple properties which each have an individual EPC. In these cases each property is required to have an EPC of A and/or B.

Environmental impact reporting

Environmental impact reporting results

This section of the report shows the results and methodology for estimating avoided carbon emissions versus the national EPC average for the properties included in the Green Loan Portfolio. All calculations are based on loan data as of 31 March 2024 and on the 29 February 2024 EPC data release for England and Wales[2] (the "EPC dataset").

	No. of Loans	Sum of allocated Eligible Green Loans	Domestic Baseline emissions intensity ($KgCO_2e/m^2$/year)	Estimated average annual CO_2e emissions intensity ($KgCO_2e/m^2$/year)	Estimated ex-ante annual avoided emissions (tCO_2e/year)	Estimated annual carbon emissions avoided per every £1m of proceeds allocated (tCO_2e/year/£1m)
	431	£150.1m	41.06	11.13	-999.95	-6.66
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 CO_2e/m^2/year.

The avoided emissions calculation compares the estimated average emissions 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 emissions 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[3] in the EPC data set.

Domestic baseline emissions intensity ($KgCO_2e/m^2$/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 ($KgCO_2e$/year)	50,412,963,000
Total floor area (m^2)	1,227,850,175
Domestic Baseline emissions intensity ($KgCO_2e/m^2$/year)	41.06

[2]The Green Loan Portfolio uses EPC data as of 31 March 2024. The latest EPC dataset at the time of writing the report contains all lodgements up until 29 February 2024. Due to the delay in updating the EPC dataset the baseline has a separate reference date.

[3]The 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 emissions 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)[4]:

i) Measure CO_2e 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 (CO_2e) of all loans by the sum of the attributed activity data (m^2) of all properties in portfolio

As per the guidance from PCAF[5] 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:

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

Green Loan Portfolio average emissions intensity ($KgCO_2e/m^2/year$) =

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

	Green Loan Portfolio
Total attributed emissions ($KgCO_2e/year$)	371,933.0
Total attributed floor area (m^2)	33,411.7
Average emissions intensity ($KgCO_2e/m^2/year$)	11.13

The average emissions intensity for the Green portfolio is 11.13 $KgCO_2e/m^2/year$, which is 73% lower than the EPC dataset average of 41.06 $KgCO_2e/m^2/year$. The lower emissions of the properties in the Green Loan Portfolio is the basis on which we have estimated the avoided emissions.

(3) Estimated ex-ante annual avoided emissions

To calculate the avoided emissions we compare the emissions intensity of each property in the Green Loan Portfolio to the baseline emissions 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[6]. We continue to apply the attribution factor in line with the PCAF standard. The formula is as follows:

Annual estimated avoided emissions ($tCO_2e/year$) =

$$\Sigma \text{ All Green loans ((Property emissions intensity – Baseline emissions intensity) X Property floor area X Attribution factor)}$$

[4] Financial institutions - Science Based Targets - Commercial Real Estate and Residential Mortgage Tool

[5] The Global GHG Accounting and Reporting Standard for the Financial Industry

[6] For 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 £1 million 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 (tCO_2e/year/£1m) =

$$\frac{\Sigma \text{ All eligible loans ((Property emissions intensity – Baseline emissions intensity) X Property Floor Area X Attribution factor)}}{\Sigma \text{ All eligible loans (Loan outstanding amount)}}$$

	Green Loan Portfolio
Estimated annual avoided emissions (tCO_2e/year)	-999.95
Sum of allocated Green Loans (£m)	£150.1m
Annual carbon emissions avoided per every £1m of proceeds allocated (tCO_2e/year/£1m)	-6.66

DISCLAIMER

This document is intended to provide non-exhaustive, general information. This document may contain or incorporate by reference public information not separately reviewed, approved or endorsed by Paragon and accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Paragon as to the fairness, accuracy, reasonableness or completeness of such information.

This document may contain certain "forward-looking statements". By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward looking statements. Any forward-looking statements made by or on behalf of Paragon speak only as of the date they are made, and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Paragon does not undertake to update forward-looking statements to reflect any changes in Paragon's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

This document is not intended to be and should not be construed as providing legal or financial advice. It does not constitute an offer or invitation to sell or any solicitation of any offer to subscribe for or purchase or a recommendation regarding any securities, nothing contained herein shall form the basis of any contract or commitment whatsoever and it has not been approved by any security regulatory authority.

The distribution of this document and of the information it contains may be subject to legal restrictions in some countries. Persons who might come into possession of it must enquire as to the existence of such restrictions and comply with them.

The information in this document has not been independently verified.

The recipient is solely liable for any use of the information contained herein and Paragon shall not be held responsible for any damages, direct, indirect or otherwise, arising from the use of this document by the recipient. Prospective investors in securities issues by Paragon must determine for themselves the relevance of the information contained herein for the purpose of any investment in any such securities together with any other investigation such investors deem necessary. In particular, no representation is or can be given to investors as to the suitability of any of Paragon's Green Bonds to fulfil the Green or Sustainability criteria of prospective and/or current investors. Investors in Paragon's Green Bonds should determine for themselves through the information contained in the relevant Green Bond documentation whether the use of proceeds and impact reporting are deemed appropriate for their own Green or Sustainability criteria. No assurance is or can be given to investors that the information contained herein or that any securities issued in connection with such information will meet or continue to meet on an ongoing basis any or all investor expectations regarding investment in "green bond", "green" or "sustainable" or equivalently-labelled projects.

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.

PARAGON BANKING GROUP PLC
51 Homer Road, Solihull, West Midlands B91 3QJ
Telephone: 0345 849 4000
www.paragonbankinggroup.co.uk
Registered No. 2336032

GRP0092-003 (05/2024)