



paragon

# Doing the right things

Responsible Business Report 2022

# Contents

**Welcome to our second Responsible Business Report which highlights our progress on the main environmental, social and governance (ESG) issues for our business and our stakeholders. We have divided our report into the following areas:**



# Chief Executive's introduction

Welcome to our  
2022 Responsible Business Report.

**As one of our key strategic priorities, sustainability continues to have an influence on everything we do at Paragon. We understand our responsibilities towards the environment and the societies in which we live and work, so our sustainability agenda is focused on doing the right things for all our stakeholders and contributing to a world in which we can all thrive.**

In 2021, we published our inaugural Responsible Business Report which set out how sustainability is embedded across Paragon and highlighted the actions we were taking that had the greatest impact. This year's report provides an update on our progress, highlights our sustainability achievements and looks forward to both the challenges and opportunities ahead.

Society continues to face serious challenges. Recent events such as the war in Ukraine, the cost-of-living crisis and global economic uncertainty are shining a light on the problems already created by the ongoing climate emergency. Additionally, the world is still coming to terms with the impact of the pandemic. Make no mistake, these are complex and sometimes difficult times.

However, there are opportunities – especially for the finance sector – to be a force for good. The finance industry is stepping up, taking action and making a positive difference, and I'm proud that Paragon is playing an active role in that.

We have made a commitment to achieve net zero by 2050 but in doing so, we recognise that net zero cannot be achieved in isolation and that our net zero commitment will not be achieved without significant and continued support from government policy and industry. We are active members of various UK Finance initiatives on climate change and, this year, we have joined Bankers for Net Zero (B4NZ), an initiative which brings together banks, businesses and regulators to accelerate the UK's transition to net zero. As a member of B4NZ, we can continue to support the wider efforts of the financial services industry and aim to minimise the impact we have on climate change.

This also means that Paragon now has a significant presence in the key forums for sustainable financing, helping to positively influence market-wide change.

Decarbonisation, with a UK ambition to reduce greenhouse gas emissions to net zero by 2050, is of critical importance. That's why we've been so proactive during 2022.

We've released a range of product initiatives to encourage our customers to invest in reducing their own emissions on their properties or in their businesses. This includes green mortgage and further advance products for our landlord customers, finance to support the purchase of electric vehicles and facilities to support our SME customers and residential developers.

A range of operational initiatives have also been undertaken across the Group to help us improve the emissions directly under our own control. We have set a target to be operationally net zero by 2030 and, in the intervening period, we are offsetting our operational emissions. We are also in the process of electrifying our company car fleet.

Significant work has taken place using our advanced data analytic capabilities to measure the level of both operational and funded emissions, as well as the risks these bring.

As one of our principal risks, climate change is prioritised in our decision-making process, and we have a dedicated sustainability governance function. We will also be reporting on our climate-related risks in line with TCFD in our 2022 Annual Report published in January 2023.

Our broader responsibilities are not just related to climate change, as important as that is. We have continued to actively support the communities we work with and, to build a more sustainable future, we need the best team, which is why our support for our colleagues has further evolved throughout 2022.

A particular highlight of the year for me, and one of which I'm incredibly proud, was the Platinum accreditation awarded to Paragon by Investors in People. This is the highest possible rating, held by only 5% of those reviewed and less than 1% of all companies across the UK.

Our purpose continues to provide the foundation for everything we do, and we remain committed to helping our customers, which is particularly important as they navigate the challenges of the current economic environment.

Looking ahead to the future, I am ambitious about what Paragon will do to support a more sustainable and resilient society. Our culture, purpose and customer focus are all aligned with our sustainability journey and that gives me huge cause for optimism that we are going to make a tangible difference.

Finally, I want to thank all our stakeholders for the part they have played in supporting our ESG agenda. Together we have shown what we can achieve when we bring together our collective expertise, commitment and passion. I look forward to these partnerships continuing to prosper in 2023.

**Nigel S Terrington**  
Chief Executive

# Understanding Paragon

**We are a technology-enabled, specialist bank**



We offer a range of savings products and provide finance for landlords, small businesses and property developers in the UK. Listed on the London Stock Exchange, we are a FTSE 250 company headquartered in Solihull, employing 1,500 people across the UK.



We help individuals and businesses across the UK prosper and grow by focusing on customers in markets typically underserved by large high street banks.



We have a deep understanding of our customers and their markets, designing products and services to meet their needs, and we are continually striving to exceed their expectations.



Our focus on specialist finance is what makes us stand out from our competitors. It underpins our purpose, strategy and values.



And at the heart of all this is our relationship with the environment and the communities in which we operate, driving us to be responsible in our business and always striving to do the right thing.



## Our business

Our lending operations are split across Mortgage Lending and Commercial Lending, funded largely by retail savings deposits.



### Mortgage Lending

We offer mortgage finance for landlords operating in the UK's Private Rented Sector (PRS). We were one of the first lenders to pioneer buy-to-let and since 1996 we've originated £27.3 billion of buy-to-let lending.

£12.3bn loan assets

72,000+ buy-to-let loan accounts

50,000+ landlord customers

### Commercial Lending

We provide finance to SMEs operating in a wide range of sectors, helping UK businesses develop and, in turn, supporting the UK economy. This includes finance for property developers, SMEs, motor finance and structured lending products for non-bank lenders.

£1.9bn loan assets

37,000+ SME customers

### Savings

Our principal source of funding for new lending is through our range of savings products offered to UK savers.

225,000+ customers

Average deposit: £30,200

Total deposits: £10.7bn

## Our purpose

To support the **ambitions** of the **people** and **businesses** of the UK by delivering **specialist financial services**

This provides the foundation for everything we do. Along with our strategy and values, it guides how we engage with our customers, our colleagues and other stakeholders. We live our purpose every day and sustainability runs through our activities. It's through supporting landlords to invest in sustainable properties, funding sustainable solutions for SMEs, and helping property developers turn unused land into new sustainable housing. We're also helping savers reach personal goals through more sustainable investment. Overall, we're helping customers across the UK to achieve their ambitions.

As well as helping our customers, our purpose is also about supporting our own people and the communities in which we operate. We do all we can to help people achieve their ambitions to grow and develop.



# Our values

We have a strong and unique culture underpinned by eight essential values, which we strive to exceed every day. These values underpin how we operate, what we stand for and how we work together to achieve our goals.



## PROFESSIONALISM

Professionalism is highly valued at Paragon and there's lots of positive reinforcement around its importance. It's about putting care into what you do. If you care about your actions, you'll pass that care on to customers and get better results for everyone.

Josh, Climate and ESG Risk Management



## TEAMWORK

Teamwork matters because we rely on each other to serve our customers effectively and deliver on our objectives as a business. It's more enjoyable to get things done together. We all have different skills and expertise and everything we do needs the support of a team.

Millie, Operational Risk



## FAIRNESS

Whether we're working with customers or colleagues, it's important to be fair. If we see a customer is facing difficulties, we don't pre-judge what might be happening. Instead, we make sure that we listen, show empathy and understanding, and explore a range of different ways to move forward.

Darrel, Collections



## COMMITMENT

I link commitment very closely to customer service. It means putting myself in the customer's shoes and making sure they receive a high level of service. Commitment to great customer service is one of the most important ways we can help them to achieve their goals.

Darren, Portfolio Management



## INTEGRITY

Integrity is about building trust and you can only do that if you're honest. We need to be true to our values and deliver our promises, meeting the expectations we've set, and taking feedback on board so that we're continually improving our service to customers.

Rina, Customer Assurance



## RESPECT

Respect means listening to our people and our customers, and incorporating their viewpoint into our thinking. If I think of my own team, they're the ones who are closest to our customers so it's essential I listen to what they're telling me, take their ideas on board and explore them fully.

Liz, New Business Process



## HUMOUR

Whatever you do and wherever you work, if you can find a way of having fun together and bringing some humour into your work, you can break down barriers between people and make work feel less like work.

Kas, Collections



## CREATIVITY

Creativity is about simplifying things, making information easy to understand and fostering interactions that are engaging, memorable and enjoyable. It's a great value because it means you're constantly asking yourself how you can make things better for our customers and our colleagues.

Laura, E-Learning

## Our strategy

Our strategy is driven by our purpose and helps us achieve our vision to become the UK's leading technology-enabled, specialist bank and an organisation of which our employees are proud.

We have five clear priorities that help us deliver our strategy, underpinned by three strategic pillars.

**We focus on specialist markets and aim to deliver long-term sustainable growth and shareholder returns through a low-risk and robust model.**

## Strategic priorities

### Growth

We are focused on growing our lending in specialist market segments where customers are underserved by large high street banks. Using our expert knowledge and experience, we aim to grow both organically and by acquisition, in a low-risk robust manner, that allows us to balance our stakeholder needs while moving towards sustainable long-term returns.



### Digitalisation

The transformation of our technology is focused on implementing digitally-enabled, cloud-based platforms that will allow us to deliver outstanding customer service, become more efficient and support decision making, whilst retaining the flexible and specialist capabilities our customers desire. Advances in technology are also helping us expand our addressable market and reach new customers directly and through intermediaries and partnerships.



### Sustainability

For Paragon, sustainability means reducing the impact our operations have on the environment, ensuring we have a positive effect on our stakeholders and communities, doing the right thing and delivering sustainable lending through the products we offer and markets in which we operate. Strong environmental, social and governance (ESG) qualities are embedded in Paragon's culture and values, and influence every aspect of our business.



### Diversification

We are continually developing our range of savings and specialist lending products, in both existing and new markets, to grow our business and help us succeed in becoming the UK's leading technology-enabled specialist bank. We are also seeking to reduce barriers to growth in UK banking through our move toward an internal ratings-based approach to capital measurement and a growing and increasingly segmented funding strategy.

### Capital management

A strong and diverse balance sheet is fundamental to the Group's success and forms one of our three strategic pillars. Management of capital is a critical lever as we invest to grow our business and people while evolving our technology, risk, governance and enterprise frameworks with a goal of delivering a sustainable return on tangible equity in excess of 15%.

## Strategic pillars

### A customer-focused culture

Expert knowledge and experience, supported by proprietary insight, data and analytics to deliver deep understanding and good outcomes for our customers.

### A dedicated team

An experienced, skilled and engaged workforce, and a unique culture underpinned by eight values.

### Strong financial foundations

Prudentially strong, with a low-risk approach to lending, reducing volatility of earnings and enhancing sustainability of dividends.



# Our ESG landscape

As one of our key strategic priorities, sustainability influences every aspect of our business. We recognise our responsibilities towards the environment and wider society and we use our influence and resources wisely.

In 2021, through the lens of dual materiality, we identified the topics that had the biggest impact on our business and our stakeholders. This was done through research, workshops and interviews and was based around themes set by the Sustainability Accounting Standards Board (SASB) and the World Economic Forum's International Business Council (WEF IBC). They formed our original ESG landscape.

This year we reviewed those priorities to reassess their significance and consider new themes. The process identified 18 topics – some old, some new. These form our 2022 ESG landscape, highlighting the focus areas for us to continue influencing and resourcing.

**Stakeholders**

Our stakeholders include our customers, colleagues, suppliers, investors, policy-makers and shareholders. To understand the wider impacts of the ESG landscape, we take a multi-stakeholder approach and consider the roles they play in our success and our approach to sustainability.

## ENVIRONMENT

We are committed to reducing the impact our business has on the environment by reducing our operational footprint and financed emissions. We offer sustainable lending products which help our customers to achieve their goals in a sustainable way.

### Minimising our footprint

Operational footprint

### Sustainable finance

Environmental impact of financing

Climate change vulnerability

## SOCIAL

We are focused on positively impacting our employees, customers and communities, from delivering good customer outcomes to developing our people and making a difference in society.

### Helping our customers

Treating customers fairly

Customer satisfaction

Financial literacy and inclusion

### Building a strong team

Employee wellbeing

Employee engagement

Employee diversity and inclusion

Talent profile

### Contributing to our communities

Community investment

Stakeholder engagement

## GOVERNANCE

Driven by our purpose and values, strong governance goes beyond meeting our legal requirements. It underpins the way we do business, and our environmental and social commitments. It involves the highest standards of business integrity and professionalism, alongside clear roles and responsibilities throughout the business, and robust reporting on our progress and future ambitions.

## Doing business responsibly

Governance and accountability

Human rights and modern slavery

Executive remuneration

Responsible taxation

Health and safety

Privacy, cyber security and data protection

# Our 2022 ESG impacts

Paragon has always been committed to doing the right thing for our people, in our world and as a business. We have actively been taking steps towards a more inclusive and sustainable future for some time and you can read more about the work we've done [here](#).

In our inaugural 2021 Responsible Business Report, we set out areas of focus which we identified would make a positive difference to the environment and communities in which we live and work. We have summarised our progress in each area below and more information can be found in the relevant sections throughout the report.

ENVIRONMENTAL	
In 2021 we said we would...	How did we do in 2022?
Engage with building owners of the operational sites we don't own to understand energy usage and reduce emissions	Worked with the landlords of our operational tenanted buildings to determine energy use based on office area.
Begin transitioning our company car fleet from diesel to hybrid and electric vehicles	All new company car agreements have been electric or plug-in hybrid vehicles since January 2022. All diesel vehicles will be removed from our fleet by the end of 2025 and all non-electric cars will be removed by October 2031 (see page 13). A Green Car Scheme for employees has also been launched (see page 24).
Install electric vehicle charging points at our owned, operational sites	14 charging points installed (see page 13).
Align to ISO14001:2015 prior to certifying the environmental management system	We have created a Sustainability Management System which aligns to the full requirements of ISO14001:2015, an internationally-recognised standard for environmental management.
Improve sustainability awareness and provide training to employees on how they can contribute to our overarching environmental objectives	Ongoing employee communications covering our ESG agenda via our employee intranet and People Forum of representatives across the Group to inform our colleagues about our progress.
Determine the next steps for eliminating scope 1 emissions and reducing scope 2 emissions	Longer term commitment to be net zero across our operational footprint by 2030 (see page 13). The emissions produced by our operations have been offset for 2022 (see page 13).

Minimising our footprint

ENVIRONMENTAL	
In 2021 we said we would...	How did we do in 2022?
Further embed climate change risk management across the business	Climate change has been identified as a principal risk and is embedded within the Group's Enterprise Risk Management Framework (ERMF) and is reported across the business and through to the Board on a monthly basis (see page 18).
Develop our understanding of the climate change impact of all our lending through enhanced data collection and scenario analysis	Enhancing our data continues to be a focus with improvements seen across buy-to-let mortgages Throughout the year a climate change scenario analysis exercise was delivered as part of the 2022 ICAAP (Internal Capital Adequacy Assessment Process) (see page 18).
Continue engagement with external climate change initiatives including involvement in industry initiatives, particularly through UK Finance's Sustainability Committee	We are a member of the Climate Financial Risk Forum (CFRF) scenario analysis working group which aims to build and share good practice across financial services. We are active members of various UK Finance initiatives on climate change and signed up to Bankers for Net Zero (B4NZ) in 2022 (see page 18).
Develop formal climate-related risk appetites and a full suite of Key Risk Indicators and Key Performance Indicators	Our Credit Committee reviews EPC (Energy Performance Certificate) concentrations of new mortgage completions and continues to analyse the linkage between EPC and loan performance. Further indicators will be developed in 2023 (see page 18).
Continue enhancement of our climate-related financial disclosures. As an official TCFD supporter, Paragon is committed to reporting in accordance with its recommendations	Our 2022 Annual Report and Accounts, published in January 2023, will contain climate related disclosures that are consistent with the recommendations of the TCFD. There continue to be areas where disclosures can be further enhanced such as across risk management and scenario analysis (see page 18).

Sustainable finance

**SOCIAL**

	In 2021 we said we would...	How did we do in 2022?
Helping our customers	Introduce system enhancements to make it easier for customer service agents to record customer vulnerability with permission and tailor support accordingly	A dedicated information screen and an agent alert were successfully added to our agent portal, improving our engagement and support for customers in vulnerable circumstances.
	Gather deeper insight on the nature and scale of vulnerabilities in our customer base through management information enhancement, aligned to drivers of vulnerability, and how this can improve employee training and product development	All business areas have developed management information to include a breakdown of the drivers of vulnerability by product line. This data allows us to tailor our strategies for customers in vulnerable circumstances and provide bespoke training by business area.
Building a strong team	Embed a hybrid working model for our people	We have implemented hybrid working as a permanent arrangement across all our offices (see page 14).
	Use the findings from our employee diversity profiles to plan the next stage of our EDI delivery	The data has allowed us to conduct checks and balances to ensure all of our employees have access to the same opportunities and are treated fairly (see page 28).
	Investors in People reaccreditation	Paragon was awarded Platinum accreditation from Investors in People during 2022 (see page 23).
Contributing to our communities	Raise in excess of £30,000 for our 2022 Charity of the Year*	£31,000 raised for Mind in the nine months to September 2022. Our new charity partnership with Newlife began in October 2022 (see page 31).
	Increase our volunteer scheme to achieve 250 volunteering days across the Group	286 volunteering days achieved in 2022 (see page 32).

**GOVERNANCE**

	In 2021 we said we would...	How did we do in 2022?
Doing business responsibly	Undertake a supplier satisfaction survey to further improve our key supplier relationships	Survey conducted in September 2022 with our key suppliers. Feedback on areas of development have been assessed and built in to future action plans.
	Launch of role-specific anti-money laundering and financial crime employee training	Anti-money laundering and financial crime training modules delivered via Paragon's online LearnAmp platform with average completion rates of 99%.
	Roll out of Enterprise Risk Management Framework (ERMF) and strengthening of risk culture across the Group	Continued focus on further development and embedding ERMF undertaken during the year, including rolling out policies to support each principal risk.  Key to the successful delivery of the ERMF has been the evolution of an improved risk culture through 'ThinkRisk!', our targeted programme of education and communication for our employees.

\*After the publication of the 2021 Responsible Business Report, we changed our annual charity programme from the calendar year to align with our financial year, which led to the 2022 charity programme running for nine months rather than 12 months.

# Minimising our footprint

We recognise the importance of reducing the impact our own operations have on the environment. As we operate in mortgage and commercial finance markets, the overall environmental impact of our operations is low. However, we are committed to identifying, measuring and managing how our actions affect the environment.

**44%**

reduction in market-based emissions compared to the 2019 baseline

(2021: 31% reduction)

**86.4%**

of electricity from renewable sources

(2021: 81.5%)

**34%**

of waste diverted from landfill

(2021: 46%)

## Measuring progress

We are continually looking at ways to improve the environmental performance of our 12 UK sites, the majority of which are office locations that have limited environmental impacts. This includes reducing our carbon emissions through the efficient and responsible use of energy and water, minimising consumption and waste while recycling where possible, and enabling and encouraging responsible environmental behaviour among our colleagues.

During 2022 we established a baseline operational footprint year of 2019 for the ongoing measurement of our environmental performance. This was chosen as an appropriate baseline to avoid the impacts of the pandemic where we saw reduced emissions from lower office occupancy.

### CO<sub>2</sub> emissions

During the past four years we have seen a 44% reduction in market-based CO<sub>2</sub> (carbon dioxide) emissions from our sites. For the first time we have reported our operational footprint using market-based emissions in accordance with GHG Protocol guidelines. The market-based method specifically reflects emissions from the electricity purchased and derives emission factors from contractual instruments where data is available. This is different from the location-based method which only reflects electricity generated in the UK. Where our data does not meet the scope 2 quality criteria, the emissions are estimated utilising the UK grid DEFRA conversion factor since a UK residual mix is not currently available. Sourcing zero carbon electricity across our main sites from a new supplier has led to a significant reduction in our market-based emissions. The increase in scope 3 emissions reflects increased business-related travel and enhanced monitoring of waste generated across our operations the management of which is a specific focus for 2023.

We are committed to reducing the emissions of our operational footprint to net zero by 2030 and are taking action now to mitigate our current and future emissions. At our Head Office, this will include upgrading to LED lighting and upgrading our heating and cooling system. Other options being explored include installing solar panels, grey water harvesting and centralising waste streams.

During 2022, our SME lending team in Southampton relocated to a new climate-friendly office with a B-rated EPC, four electric car charging points and cycle stores.

In addition to this longer-term commitment, we have made a short-term commitment to offset our operational footprint.

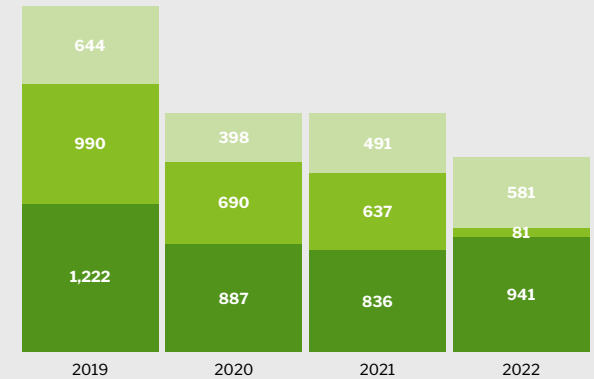
This year we purchased a portfolio of Gold Standard and Verified Carbon Standard certified carbon offsets. The certification standard ensures the offsets are of high environmental quality while also providing other sustainability benefits aligned with the UN Sustainable Development Goals.

Our operational footprint has been independently verified to provide a higher level of accuracy on the emissions being reported and greater confidence that the emissions produced by our operations have been offset.

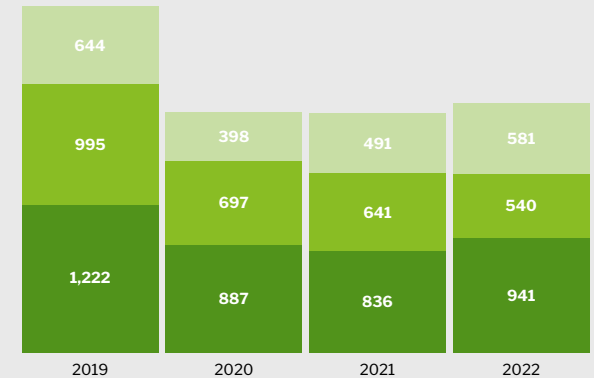
We are also electrifying our company car fleet; no petrol or diesel vehicles have been ordered since January 2022. All diesel vehicles will be removed from our fleet by the end of 2025. From October 2026, only electric vehicles will be ordered, and all non-electric cars will be removed from our fleet by October 2031.



### Market-based method CO<sub>2</sub> emissions (tCO<sub>2</sub>e)



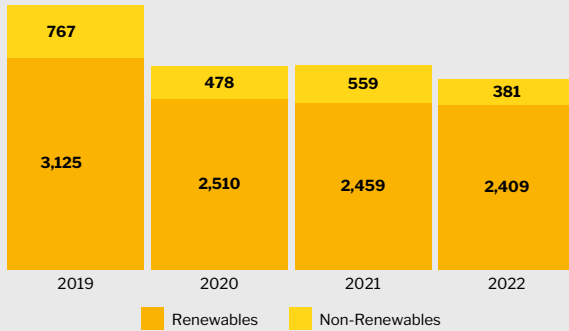
### Location-based method CO<sub>2</sub> emissions (tCO<sub>2</sub>e)



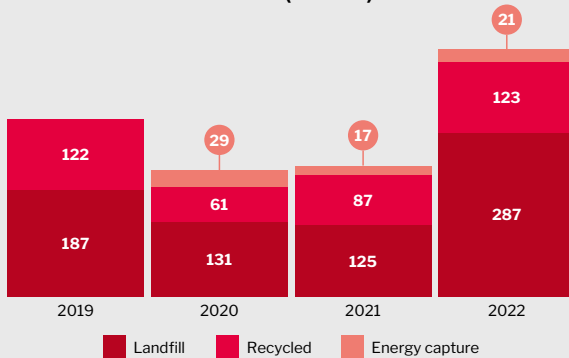
#### Our carbon emissions are grouped into three categories

- Scope 1**  
Emissions produced directly from our operations, which include emissions from our fleet of company cars and the heating and cooling of our offices
- Scope 2**  
Emissions associated with the generation of our purchased electricity
- Scope 3**  
Emissions generated by expensed employee travel, our water usage and waste processing

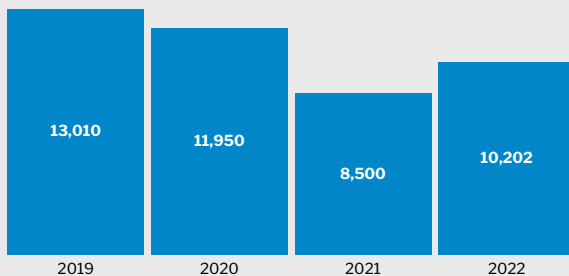
### Electricity (MWh)



### Waste (tonnes)



### Water usage (m<sup>3</sup>)



### Energy

Since 2019, renewable energy for all owned sites has been supplied through the grid via OFGEM accredited suppliers. As part of our 2030 operational footprint net zero target, we aim to transition our electricity consumption to renewable or low carbon sources.

In 2022, the energy performance of two of our main sites was independently assessed. The recommendations for increasing the current energy ratings are now being delivered, including LED light upgrades and pipework installation in plant rooms across various sites.

### Waste

We are focused on reducing the amount of landfill waste and increasing the ratio of recycled waste. In 2020, we updated our waste contractor across our principal sites meaning that since then all general waste produced at these sites has been either recycled or disposed of through energy from waste initiatives. This reduces the waste being sent to landfill.

Increased activity across our Specialist Fleet Services business, which operates workshops in support of local authority fleet vehicles, has been the principal driver for the increase in waste during 2022. The monitoring and management of each waste stream within SFS and across all our sites has been enhanced and reductions in emissions from waste are a focus for 2023.

We supported Recycle Week in 2022 with a company-wide awareness and education campaign to refresh employees' knowledge and remind them of the benefits of recycling at work.



### Water

Our sites use water responsibly. At our Head Office, low water usage fittings have been a key specification during the continuing refurbishment of our restrooms. The increase in water consumption throughout the year is linked to increased office occupancy which outweighs the reduced consumption from the refurbishments completed.



### Work from home emissions

We have migrated to a hybrid working environment, so it is important that we understand the emissions arising from working from home rather than in the office.

An initial estimate of these emissions has been calculated using the home-working emissions available through the DEFRA conversion factor. The estimate relies on numerous assumptions based on the number of home working hours, average electricity and heat consumption and the ratio of household members who would normally remain at home during the day. We will continue to monitor work from home emissions as good practice develops.



### 2023 focus areas

- Continue upgrading and re-assessing our buildings and management systems to further improve EPC ratings
- Refresh the Group's Green Charter to educate and raise awareness of sustainability initiatives amongst our people
- Launch a Paragon-specific sustainability training module for completion by all employees

# Sustainable finance

Climate change is one of the biggest challenges faced by the world today and we want to better understand the impact of our business on the climate and help our customers meet their environmental responsibilities.

To ensure we are taking an active role in the transition, we have become a member of Bankers for Net Zero (B4NZ) and have made a commitment to achieve net zero by 2050 but in doing so, we recognise that this cannot be achieved in isolation or without significant and continued support from government policy and industry.

**£832.2m**

new lending to EPC A-C properties supported by our range of green products throughout the year

**3.0%**

of mortgage balances in high or very high flood risk zones

(2021: 3.2%)

Achieved **£150m**

allocation of our Tier 2 Green Bond

## Our sustainable products

To plot a clear pathway to net zero, we need to fully understand the emissions enabled through our lending; in other words, our financed emissions. As a diversified bank providing products and services across multiple sectors, we have a responsibility to help our customers reduce their environmental impact and we have developed a range of sustainable products across our business.

### Buy-to-let mortgages

Buildings account for 20% of the UK's greenhouse gas emissions, with over 15% coming from residential buildings<sup>1</sup>. Nearly two in ten homes in the UK are in the Private Rented Sector (PRS) which means the decarbonisation of this sector is crucial in reaching net zero ambitions in the UK.

Our buy-to-let mortgage portfolio is the most significant on our balance sheet, so we have focused our initial activities on understanding these emissions and developing our approach to reduce them.

Some of the key issues influencing the decarbonisation of the UK's residential stock and our actions to address them are:

#### Energy demand

Energy is a key contributor to emissions from residential buildings and the Government has set an ambition to have as many homes as possible rated EPC C or above by 2035.

We launched a range of green mortgage and further advance products incentivising our landlord customers to invest in more efficient properties.



#### Low carbon energy and heat

The uptake of low carbon heat and energy is still a growing area in the UK property market.

We recently updated our credit policy to allow applicants to apply for properties with solar panels.



#### Awareness and education

Awareness of energy efficiency has increased. However, many property owners are not sufficiently informed to know where to go, who to ask, or what to do to increase energy efficiency.

We have published educational articles and blogs explaining current and proposed energy efficiency regulations, outlining who is affected and how they are enforced, whilst also highlighting ways in which landlords could improve the energy efficiency of their properties.



#### Data

The key to decarbonisation is understanding emissions and how to reduce them.

We have updated our underwriting process to record the EPCs on new properties across our mortgage portfolio to better understand the energy efficiency and financed emissions of our lending.



As well as offering our green mortgage incentives to landlord customers applying for funding on properties with an EPC A-C rating, we understand the importance of improving the existing stock given that less than half of the UK's building stock is rated EPC A-C. We are actively working towards developing retrofit options to support our customers whose property rating is below EPC C as they transition, supporting them through the cost of upgrading properties to EPC C and above. This proposition will build on our expertise gained from offering short term financing options for landlords who want to make minor alterations to properties.

Our buy-to-let financed emissions are calculated using the Partnership for Carbon Accounting Financials (PCAF) methodology which estimates CO<sub>2</sub> emissions using EPC data. These emissions are calculated for properties in England and Wales only and where matched valid and expired EPC data<sup>2</sup> is available (England and Wales match rate 93% (2021: 92%) by value). There are limitations to this, but we remain committed to following good market practice and by continually reviewing our methodologies and improving data quality. The PCAF data quality score for these emissions, a recognition of data accuracy based on the level of inherent assumption, is 3 (1 = highest data quality, 5 = lowest).

#### PCAF scope 3 financed emissions<sup>3</sup>

Scope 3 annual buy-to-let mortgage emissions	2022	2021
Balance of mortgage lending with EPC emissions data (£m)	10,858.3	10,171.7
Absolute financed emissions from properties with EPCs (tCO <sub>2</sub> e)	208,506	208,235
Physical emissions intensity of properties with EPCs (kgCO <sub>2</sub> e per m <sup>2</sup> )	46.6	47.1
Economic emissions intensity of properties with EPCs (tCO <sub>2</sub> e per £m balance)	19.2	20.5



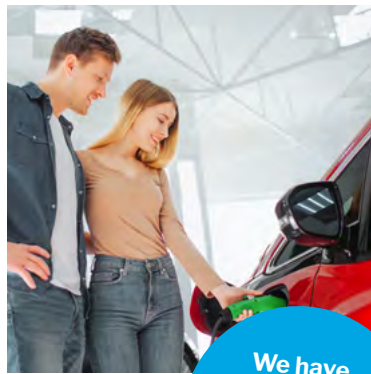
**Our research indicates that future portfolio expansion by landlords will target properties rated EPC C or above, bringing more energy efficient properties into the PRS.**



Richard Rowntree, Managing Director Mortgages

<sup>1</sup>Progress in reducing emissions 2022 Report to Parliament <sup>2</sup>Expired EPCs have been included as they are the best available data possible for estimating the emissions and energy efficiency of the property. <sup>3</sup>Our 2021 financed emissions have been restated due to data enhancements over the last year across EPC data quality and EPC matching. This has improved EPC data has been restated allowing for a more informative comparison of the financed emissions being reported.





We have lent £11.9m under our Green Homes initiative

### Green bond

In 2021, we became the first bank in the UK to issue a subordinated Tier 2 green bond raising £150 million. The proceeds from the bond have been allocated exclusively to fund newly originated buy-to-let eligible green loans and set out the Group's ambition to finance newly originated EPC A/B buy-to-let loans within two years of issuance.

The green bond has acted as a catalyst across the business, embedding sustainability within Paragon's long-term strategy. We have published our first Green Bond Investor report which is available [here](#) and outlines the progress as at 31 March 2022. We have since achieved full allocation of £150 million of EPC A/B buy-to-let loans supported by the increased new EPC A-C lending from our green product range. The next investor report will be published in May 2023 covering the period to 31 March 2023.

### Commercial Lending

Alongside the buy-to-let market, it's also important for us to understand the environmental impact of our other lending areas. In our Commercial Lending division, we support UK small businesses operating across a range of sectors with finance to help them grow. This includes finance for property developers, motor finance and structured lending products for non-bank lenders.

### SME lending

In our SME lending business, we provide asset finance in a variety of industry sectors and we are always looking at how we can support our customers to achieve their objectives in a sustainable way. Through our Financing a Better Future campaign, we began offering tailored finance for green assets to our SME customers and brokers. The campaign helped establish customers' appetites for more sustainable equipment, machinery and vehicles. Moving forward we will continue to engage with the sectors we serve, tailoring our lending to their needs and helping them to progress towards their own sustainability goals.

Across the SME lending business, limited company customers have been broadly analysed by SIC (Standard Industrial Classification) codes to identify those operating in high carbon-intensive industries. The results demonstrate that the Group's SME lending customer base is not largely exposed to those industries considered to have higher environmental impacts.

Sector exposure		
	2022	2021
Water, sewage and waste	4.14%	4.53%
Extractive industries	1.82%	2.35%
Power generation	0.10%	0.01%
<b>Total</b>	<b>6.07%</b>	6.89%

### Development finance

We continue to encourage the development of new energy efficient housing, including future-proofing homes so they meet the UK Government's environmental objectives. Installing energy efficiency measures during construction is far simpler and cheaper than retrofitting later. That's why we launched our Green Homes initiative, which supports housebuilders developing new domestic properties with the highest energy performance standards. Under the scheme, developers delivering homes with an EPC rating of A will receive a 50% reduction on loan exit fees. To qualify, at least five private units must be built within the development and 80% or more of these must have an EPC rating of A, with any remaining being at least EPC C standard.

### Motor finance

The transition to low carbon motor vehicles is a seismic change for manufacturers, retailers and lenders. In response to growing demand from customers, we have expanded our product range to include lending on battery electric vehicles. As a lender serving the second-hand vehicle market, we have seen significant growth in this area and expect to see further expansion in years to come.

### Savings

In February 2022, we launched our first green savings product, a three-year fixed-rate bond, allowing our savers to invest in green initiatives. The deposits are exclusively used to fund buy-to-let mortgages on properties with an EPC rating of A-C. These are considered to be the most energy-efficient homes with lower than average CO<sub>2</sub> emissions and lower fuel bills, benefiting both the environment and billpayers\*.

\*Text updated in September 2023

## Climate change vulnerability

In 2020, the Board designated climate change risk as a principal risk and our Sustainability Committee ensures comprehensive consideration on this across all aspects of our business.

We categorise the financial risk of climate change associated with lending into two categories:

- transitional risks
- physical risks

Our initial focus has been across our mortgage portfolio due to the size of the exposure to the asset class and the availability of data to assess both physical and transitional risk.

### Transitional risks

Transitional risk refers to the risks related to transitioning to a low carbon economy which ultimately could impact asset values or the cost of doing business. Transitional risk can materialise through regulatory or government pressures, or technology developments, which aim to reduce environmental impacts. The initial focus in the assessment of transitional risk across mortgaged properties, has been based on their energy efficiency, measured by EPC ratings.

We continue to see positive momentum in EPC grade migration across our portfolio, shifting to more energy efficient property stock, which is largely driven by product initiatives.

The implementation of UK Government Minimum Energy Efficiency Standards is currently subject to review and the outcome will impact the Private Rented Sector. We are lobbying for final policy outcomes, including timescales, that are aligned with the development of appropriate infrastructure and skills to support the transition alongside the establishment of an appropriate affordability assessment for landlords. We stand ready to support our current and new customers when the final policy is delivered.



EPC split of our buy-to-let lending				
	Balance £m		% by balance	
	2022	2021	2022	2021
EPC A/B	890.2	795.2	8.2%	8.1%
EPC C	3,390.7	2,878.7	31.1%	29.4%
EPC D/E	6,483.9	5,940.4	59.6%	60.8%
EPC F/G	116.7	161.0	1.1%	1.6%
<b>Total</b>	<b>10,881.5</b>	<b>9,775.2</b>	<b>100%</b>	<b>100%</b>

The EPC data covers 92.8% (2021: 88.3%) of our mortgage portfolio across England and Wales.

### Physical risks

This refers to climate change and other environmental factors which may increase financial risks. Physical risk has the potential to impact customers directly through damaging their assets or indirectly in the broader supply chain.

Our assessment of physical risk has initially focused on the risks posed by flooding. More detailed analysis was carried out throughout the year on our exposure to flooding. Our previous risk assessment was performed on a postcode level however this assessment used more location-specific flood risk data and considered the risk from surface water flooding as well as rivers and seas. Our analysis (below) indicated that only a small proportion of properties in our loan portfolio was located within high-risk zones. Insight from the assessment was shared with our in-house survey team, which conducted follow-up assessments on a sample basis. This concluded that the properties were not considered at risk and that underwriting controls focused on mitigating flood risk were appropriate and robust.

The flood risk data covers 93.4% (2021: 93.9%) of our entire mortgage portfolio across the UK.

Flood risk				
	Balance £m		% by balance	
	2022	2021	2022	2021
High risk or very high risk	336.8	340.1	3.0%	3.2%
Very high risk	8.1	9.7	0.1%	0.1%

Throughout the year we delivered our first iteration of climate change scenario analysis. The forward looking assessment projected climate change risk across the mortgage portfolio to 2050 and 2080. The analysis centred around quantifying the risks caused by transitioning to higher EPC bands and the physical risk caused by flooding and did not identify any material vulnerabilities. As our approach to scenario analysis matures it will continue to inform our risk management processes and climate change strategy.



## 2023 focus areas

- Work with Bankers for Net Zero (B4NZ) to help support UK industry and identify current UK policy gaps
- Develop retrofit options to support customers in upgrading properties below EPC C
- Continued development of climate change scenario analysis, leveraging industry good practice to determine the resilience of the Group's strategy under different climate-related scenarios
- Utilise PCAF framework to establish an emissions balance sheet

# Helping our customers

We are committed to supporting the ambitions of the people and businesses of the UK by providing specialist financial services. This means using our expertise to develop products and support to meet the needs of our customers.

We understand that customers sometimes need a little more support, not least during particularly challenging times. We therefore make sure our people are trained and confident in discussing the support we have available for those customers who need it. We'll always do everything we can to deliver good customer outcomes and treat every customer with fairness and respect.

**+59**

Net Promoter Score (NPS) for savings account opening

**600 million+**

items of customer data analysed each month

**20,000+**

customers surveyed during 2022

## Our customer commitment

We want every customer to feel assured that we will always consider their needs and act fairly and responsibly in our dealings with them. Our customer commitment is underpinned by our conduct policies and standards, from product governance to complaints handling, and from distribution to servicing. We regularly review and update these to maintain our high standards and to continuously improve across our business.

### We strive to make sure our customers are confident that...

- ✓ our products and services are designed to meet their needs
- ✓ our employees are skilled and experienced to provide the services our customers require
- ✓ the information given to them will be clear and jargon free
- ✓ products will perform as they are led to expect
- ✓ they will not face unreasonable post-sale barriers to change a product, switch provider, submit a claim or make a complaint
- ✓ all complaints will be listened to, and claims will be reviewed carefully, fairly and promptly
- ✓ where applicable, they will be made aware of how they can refer their complaint to the Financial Ombudsman Service
- ✓ if they are in a vulnerable situation and/or in financial difficulties, we will provide a high level of support and make sure they are signposted to sources of free independent advice
- ✓ they will be made aware of the Financial Services Compensation Scheme (FSCS) and the protection this provides for them

*I feel secure using Paragon Bank, and the type of accounts and interest offered suited my needs.*

New Applicants Survey, September 2022

*I can't fault Paragon, every transaction was easy. Website easy to navigate. Very helpful customer service. Competitive rates.*

Maturity Survey, September 2022

## Customer insight

A dedicated customer insight team enhances our customer understanding and enables us to improve our overall customer experience. We run a comprehensive customer insight programme, designed to deepen our understanding of our customers. This programme regularly checks customer satisfaction with our products and services, and the feedback informs our strategy, product design and priorities so we can better meet our customers' needs.

### Examples of research over the last 12 months

Mortgages	SME lending	Savings
<b>Focus on fixed mortgage maturity</b>	<b>Enhanced thought leadership</b>	<b>Testing customer understanding</b>
A confidential, quantitative survey of landlords whose fixed rate period was due to expire, exploring how they plan ahead, and their key considerations when switching mortgage products	Three bespoke research projects, surveying more than 2,500 UK SMEs, giving business owners the forum for their voices to be heard	In-depth qualitative evaluation of our savings proposition and communications
The learnings enabled us to offer customised support, contacting landlords at the optimum time to provide enhanced guidance and seamless, advanced switching for convenience and peace of mind	We learned that inflation and rising costs are the greatest business threats affecting cashflow. Despite those challenges business leaders remain resilient, they innovate, invest in technology and focus on talent planning	We learned that our customers have a good understanding of all product features and were satisfied with the information provided. It taught us that the FSCS guarantee, review sites and branding all contribute towards building trust with our customers



Satisfaction score

Net Promotor Score

Mortgages<sup>1</sup>

75%

+40

Savings

74%

75%

+59

+52

Account opening

Maturity

Account opening

Maturity



This year we successfully launched an innovative 'always on' digital research community as a pilot, called LetsConnect. Over 400 landlords and 100 intermediaries have joined the community.

It has allowed us to conduct quick polls on key topics for our customers, telling us the likely impacts of issues and developments, enabling us to provide appropriate support. For example, we have been able to gain an understanding of our customers' needs and experiences with EPC assessments, helping to inform our thinking on solutions, one of the key issues for the buy-to-let market.

This platform also allows us to further digitalise our broader mortgage services – one of our five key strategic priorities.

<sup>1</sup>Mortgage results are via Paragon's mortgage intermediaries.

## Consumer Duty

The Financial Conduct Authority (FCA) has confirmed plans to introduce a new Consumer Duty principle and rules to improve outcomes for customers across the financial services industry. Here at Paragon, we've developed an implementation plan which involves ongoing analyses of our products and services, and applying new processes and frameworks. Measuring and evidencing good customer outcomes, and preventing customer harm, will continue to be a priority across all parts of Paragon.

## Customers in vulnerable circumstances

According to the FCA, half of us will find ourselves in vulnerable circumstances at some point in our lives. This could be because of poor health, a life event, low capability or low resilience. Understanding the drivers and characteristics of vulnerability allows us to create the training we need so that we can identify when our customers need extra or tailored help. In turn, it means those customers can achieve the same good outcomes as other customers.

Whilst we have been supporting customers in vulnerable circumstances for many years, the last twelve months have been especially difficult for them. Research has shown that more than 80% of adults have seen an increase in their cost of living<sup>1</sup>, most commonly with food shopping and energy bills.

We have a dedicated 'Customers in Vulnerable Circumstances' working group in place, sponsored by our Chief Operating Officer. This is where we share industry research and best practice and utilise that information to develop the knowledge our people need to fully support our customers and ensure we meet FCA guidance. The group meets monthly to maintain awareness and look at vulnerability trends and support options.

We have a longstanding relationship with the Royal National Institute for Blind People giving us the capability to translate documents to braille, large print or audio files. We are members of the Death Notification Service, a free service that allows people to notify multiple banks and building societies of a person's death at the same time.

**R N I B**

death  
notification  
service

### Strengthening our capabilities



External training has been provided by Mind and Samaritans to help our people better understand and respond to customers with mental health challenges or in crisis situations. These vulnerabilities were identified through our insight work as areas where employees wanted support to help customers.



The Illegal Money Lending Team provided training in response to the nationwide rise in the number of victims of illegal lenders<sup>2</sup>.



In addition to our own in-house training, bereavement training was provided by Cruse to help our people better support bereaved customers.



When Darrel in Collections noticed one of his customers had moved into arrears quite unexpectedly, he made contact and carefully opened up a conversation.

The customer mentioned he wasn't well enough to have that conversation. Using his training on customer vulnerability, he took a sensitive approach, offering reassurance, postponing the conversation and arranging to make future contact by email to fit around hospital appointments and recovery periods.

The customer was then able to let Darrel know what was happening on an ongoing basis and when he'd be able to talk.

### Vulnerability Awareness Campaign

Paragon operates a dedicated internal group to highlight issues surrounding customer vulnerability, allowing colleagues to share ideas and take steps to support those who need our help. A team of employees representing customers from across the Group meets regularly to discuss and promote awareness of vulnerability issues amongst all our colleagues.

**Our objective is to increase general awareness of vulnerabilities and the support that's available. It also helps us to keep customer vulnerability at the forefront of our thinking throughout all the stages of the customers' journeys with us.**

Emma Davies, Customer Vulnerability Manager



## Listening to our customers

Even with the best intentions, we don't always get things right so effective resolution of complaints is really important to us.

We follow the FCA's Dispute Resolution Sourcebook to deliver consistent and fair outcomes for our customers. This means we signpost different ways for our customers to get in touch, we acknowledge each complaint properly, we investigate fully, we respond in a fair manner, and we provide information on alternative dispute resolution.

We also have our own Customer and Conduct Committee which makes sure complaint volumes are monitored, trends are identified, and issues are addressed.

**2.2%**

of complaints escalated to the Financial Ombudsman Service

**0.55**

complaints per 1,000 accounts

## Financial literacy and inclusion

We understand our responsibility to support individuals and businesses in choosing the most appropriate products and services. Equally, we have a key role to play in making our products and services accessible and understandable, supporting our customers to develop their own skills, and helping the next generation.

We constantly monitor our digital and printed materials to make sure we're using language that is clear and understandable. We've gone a step further this year in developing tone of voice guidance to help our people communicate with our customers in a clear and consistent way.

## Financial wellbeing

One of our priorities at Paragon is supporting the financial wellbeing of our customers by helping them develop a sense of security around their finances. This involves signposting people to independent, external sources such as MoneyHelper, Citizens Advice and StepChange Debt Charity, when they need advice or guidance.

We also follow the requirements of the Debt Respite Scheme which gives individuals in debt the right to legal protection from their creditors. This year we also joined the UK Finance Customer Resilience Community, which is a group of leading finance firms working together to support customers in financial difficulty through sharing best-practice and problem-solving.

### Our customer and industry awards



## 2023 focus areas



- Continue to implement Consumer Duty in line with regulatory guidance and expectations
- Launch new training and education for employees on financial resilience, and persona based training to help us humanise our audience and anticipate customer needs
- Create a Customer Support Hub and review our website to enhance the quality of advice, guidance and signposting





# Building a strong team

We employ 1,500 people based across 12 offices around the UK, who work together to help our customers achieve their ambitions. The future of our business depends on those people – they drive Paragon’s success. That’s why we continue to work hard to attract, develop and retain a diverse workforce, where everyone feels supported, confident and able to reach their full potential.

Our strong culture is something we’re exceptionally proud of. Along with our values, it helps guide us every day to make sure we are always doing business in a responsible and sustainable way.



In 2022, we were named as a Platinum employer by Investors in People, joining just 5% of UK companies to hold this prestigious status. The accreditation is recognition of our commitment towards high performance through excellent employee connection, engagement, wellbeing and organisational culture.



**Congratulations on the achievement of gaining Platinum accreditation, all the more remarkable given the challenges of the past two years. It's well-deserved and clearly the outcome of a lot of hard work.**

*Bob Morrison, Investors in People Practitioner*

## Recruiting and retaining the right people

We take great care in building and expanding our team. We focus our selection and recruitment processes on ensuring we recruit people who represent and reflect our values and culture.

Our people work hard to support our customers and help to grow our business, and we want to reward them with a range of valuable benefits. This includes generous annual leave, including a day off for their birthday, and profit-related pay. We take our employees' financial wellbeing seriously by providing competitive pension contributions, access to annual pension advice, tax-friendly incentives such as cycle to work schemes, as well as a range of local and national discounts.

During 2022, we also launched our Green Car Scheme, offering employees a chance to exchange part of their pre-tax salary to lease a new plug-in hybrid or fully electric vehicle.

To help support our people financially, we provided a one-off £500 cost-of-living payment in July 2022, advanced £500 of our annual profit-related pay (paid each December) and gave employees a 5% pay rise.



We continue to be an accredited employer with the Living Wage Foundation. This means all our employees are paid at least the real Living Wage – an hourly rate calculated according to the cost of living in the UK.

We have implemented hybrid working as a permanent arrangement across all our offices, giving our people a better work-life balance and a flexible approach to working patterns. On average, employees work two days a week in our offices, with the remainder in remote locations.

Employee contributions are recognised throughout the year with a variety of awards:

- Length of service milestones from five to 40 years, which include travel vouchers and sabbaticals
- Annual Employee of the Year and Team of the Year awards to reward outstanding performance
- Peer-based nominations that recognise and reward people who exemplify our values

**20 years' service**  
£2,500 holiday vouchers

**30 years' service**  
a month's sabbatical



**16 years**  
average length of service for our executive management team

**8.5 years**  
average length of service for employees

**12%**  
voluntary employee turnover in 2022

**5.2**  
average annual training days per employee in 2022

**234**  
new hires in 2022

We are exceptionally proud of our culture which underpins how we do things at Paragon and helps us recruit and retain the best people for our business. In our most recent employee survey, carried out during 2021, 95% of our employees agreed they are proud to tell people they work for Paragon and 96% agreed there is a clear and consistent set of values and behaviours that underpin how we operate.



**Share Save**

We operate Sharesave and profit-sharing schemes which enable employees to benefit from the performance of the business and encourage personal saving and financial security. 64% of our employees are involved in a Sharesave scheme with an average investment of £200 per month.



All our people were invited to our Summer Spectacular event during 2022, giving us a chance to reconnect after the pandemic, celebrate success and fundraise for our charity of the year, Mind.





## Developing talent

We have a structured approach to learning and development and are committed to helping our people develop their capabilities and achieve their potential. We have a wide range of opportunities delivered across virtual, hybrid and in-person channels so all our people can access learning to support their current role and future career aspirations.

All employees are encouraged to draw up a personal development plan with support from their manager. This might include on-the-job training, online learning, attendance at courses and events, or taking control of their own learning. They can choose from a vast array of online and e-learning resources through our learning management system, LearnAmp, which offers over 6,500 online resources.

Development requires commitment and we actively encourage our employees to complete academic and professional qualifications appropriate to their roles or career aspirations. Whether part-time or distance learning, we pay 100% of course fees, including examinations fees. We also pay associated costs such as professional subscriptions. Successful completions are recognised with a generous completion bonus.

**101** employees undertaking professional qualifications in 2022



**44** employees on or completed apprenticeship programmes in 2022




We also provide a range of early career opportunities, including apprenticeships, undergraduate internships and placement opportunities. During 2022 we signed up to be part of the prestigious 5% Club – a group of organisations which pledge their support to ongoing early career development. As such we aspire to achieve 5% of our workforce being in ‘earn and learn’ positions within five years.

We use the Government’s Apprenticeship Levy to support the programmes we run, and our Team Leader Academy is fully aligned with the apprenticeship framework. We’ve also pledged 10% of our Apprenticeship Levy to help SMEs offer 27 apprenticeships.

*“After gaining qualifications in computer science, I saw a cyber security apprenticeship role and thought it would be great opportunity for me as it’s an area I’ve always been interested in. My application was successful and I spent 18 months picking up new skills and valuable knowledge, and learning about other teams in Paragon. I’m now a Cyber Security Analyst and loving every moment.”*

*Samina Rehman, Cyber Security Analyst*



## We help our people develop their capabilities with a range of structured development programmes

### Team Leader Academy

Accredited by the Chartered Management Institute, this programme offers a Level 3 First Line Manager Apprenticeship. During 2022, 42 employees took part in the programme.

### Senior Leadership Development Programme (SLDP)

This programme is in its third year and supports individuals who show potential to become future senior leaders. Since its inception in 2018, 40% of those taking part in the programme have been promoted.




### 30% Club Mission Gender Equity and Mission INCLUDE mentoring programmes

Paragon participates in programmes to support the career development of women and under-represented groups. In 2022 Paragon was involved with more than 25 mentoring relationships and intends to increase this in the future.

### High Potential Programme

During 2022, we ran our first High Potential Programme for 28 of our rising stars. This 18-month programme is aimed at employees who show potential in more specialist, non-managerial roles, to develop their skills and support their continued career progression.

*“Being involved with the SLDP has been a great opportunity for me to develop my leadership skills, build my personal network and shape a clear development plan to help me achieve my ambitions. This programme is just one example of Paragon’s strategy to invest in its people and create the leaders of tomorrow”*



*Emma Frew, Enterprise Risk Director and Senior Leadership Development Programme participant 2021/22*

## Diversity and inclusion

Diversity and inclusion are important elements of our people strategy. We want everyone to feel welcome at Paragon and share their talents, helping us to broaden our perspective, understand our customers better and build a stronger business.

We especially believe the diversity of our directors, managers and employees should reflect the diversity in the world around us. Following a data collection exercise first started in 2021, we've continued to ask our people to complete their diversity profiles through a dedicated 'This Is Me' campaign and 73% have now completed these.

This data helps us to understand the composition and diversity of our workforce and measure the progress we're making. It allows us to check we're providing equal opportunities and treating all employees fairly with the same access to training and development. We also use this data to benchmark ourselves against the UK-wide national census data.



During 2022, we took part in the CBI Smart Futures Programme run by the EY Foundation. This is a partnership which helps to promote social mobility by supporting young people from low-income backgrounds to get paid work experience, employability skills, training and mentoring.

Paragon is a founding member of Progress Together, an independent body created to drive socio-economic diversity at senior levels across UK financial services. Our involvement to date has included sharing case studies and best practice, alongside collaboration across the industry to support talented people to progress, regardless of their background.



## Equal opportunities

All our employees should be able to work in an environment free from discrimination, harassment and bullying. Our employees, along with our job applicants, customers, business introducers and suppliers should be treated fairly. We invest in management training to make sure our managers are equipped to support fair working practices. We educate all employees to make sure the policy is fully embedded across the organisation.



We're an accredited Disability Confident employer, providing inclusive and accessible recruitment and support for disabled people.

We continue our ongoing commitment to improve equality of opportunity in the workplace.



**“We have many talented people being overlooked in our communities and so much energy is lost in people hiding who they are, which could be spent on growing careers.**

**This is a waste of talent and people should be nurtured and supported to progress, regardless of their background.**

Richard Rowntree, Director of Mortgages, EDI Network Executive Sponsor and Board member of Progress Together

## Gender diversity

Increasing female representation at leadership level and throughout the organisation is an ongoing area of focus for Paragon.

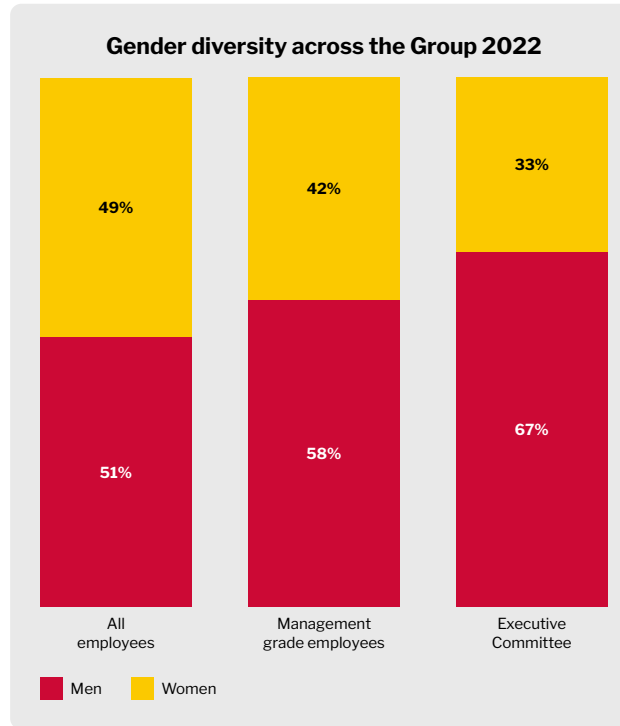
Since 2016 we've been a signatory of HM Treasury's Women in Finance Charter, a commitment by signatory firms to work together to build a more balanced and fair industry.



We are proud that we met our initial target to have 35% female representation in senior management positions by January 2022.

In recognition of this, we've now revised our target to achieve 40% female representation in senior management positions by December 2025.

Women In Finance Charter		
	Target	Sep '22
Women represented in senior management*	40% by Jan 2025	38.1%
Women in workforce	50%	50.8%



## Gender pay gap

Our 2022 gender pay measures were similar to those for 2021 and remain larger than we'd like. As evidenced by the gender split amongst our pay quartiles, this is predominately due to the seniority and nature of roles that men and women are undertaking in the organisation. Employees in our lower pay quartiles are predominantly female and typically include our operational roles which lend themselves particularly well to part-time working arrangements.

Gender pay gap		
	April 2022	April 2021
Median	32.5%	36.6%
Mean	36.3%	38.4%



**We regularly assess pay levels across the Group and are confident there's not a difference in pay between men and women undertaking the same role and this is not a contributory factor in our gender pay gap.**

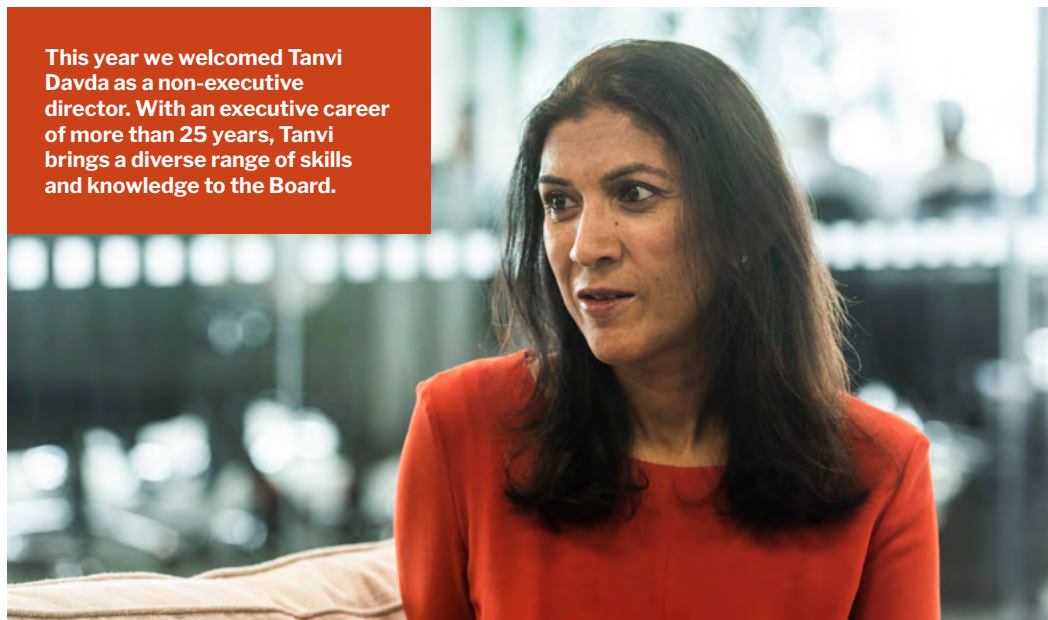
Anne Barnett, Chief People Officer

\*Senior Management is defined as being Executive Directors, Executive Committee members and their direct reports, in accordance with the recommendations in the Hampton-Alexander Report.

**48%** individuals receiving management development are female

**55%** of individuals studying for professional qualifications are female

This year we welcomed Tanvi Davda as a non-executive director. With an executive career of more than 25 years, Tanvi brings a diverse range of skills and knowledge to the Board.





Paragon decorated our very own float and almost 50 employees took part in the 2022 Birmingham Pride Carnival Parade to support LGBTQ+ colleagues. Plus, a rainbow cake sale during Pride month raised £600 for Mind.

### EDI Network

Our Equality, Diversity and Inclusion (EDI) Network was established in 2020 and aims to change perceptions and breakdown barriers, raise awareness and support the delivery of initiatives to improve equality, diversity and inclusion at Paragon. 17 employees form this network, with our Director of Mortgages, Richard Rowntree, as Executive Sponsor.

EDI Network members are now involved in the selection process for all of our talent development programmes so they can challenge if they see evidence of unconscious bias in our selection decisions.

### Listening Circles

Seven Listening Circles took place during 2022, with all members of Paragon's Executive Committee attending at least one. These are opportunities for employees to share their experiences and feedback directly with Paragon's senior leaders. Based on feedback gathered through Listening Circles throughout the year we've developed a programme to address some common development needs of employees in minority groups.



Black History Month saw an exhibition of colourful graphics and a networking event for black employees.



International Women's Day

International Women's Day saw three senior leaders hold a panel discussion for all employees about the importance of gender diversity.



Andrea Knott, Head of People  
Partnering and EDI Network Lead

**The EDI network plays a really important role in Paragon's journey to create a more diverse and inclusive network. Improved diversity and inclusion improves the experiences of our employees and also helps us attract the brightest and most diverse talent.**

## Employee wellbeing

We have a wide-ranging suite of initiatives to help employees manage all aspects of their physical, emotional, social and financial wellbeing needs, including:

- ✔ a Wellbeing team to provide confidential support
- ✔ a Wellbeing Hub on our intranet providing a wealth of information and resources to support all aspects of wellbeing
- ✔ access to the Vitality at Work programme which helps employees to better understand their health through personalised reviews and rewards for healthier lifestyles
- ✔ free fitness classes at our offices and weekly fresh fruit deliveries at all our locations
- ✔ complimentary sanitary products provided across all offices
- ✔ flu vaccination vouchers provided for people who aren't eligible for a flu jab through the NHS



Paragon's **Wellbeing Team** is made up of nine Mental Health First Aiders across the Group.

They have been trained to offer confidential support and are able to signpost colleagues to relevant help, resources and advice relating to emotional, financial, physical and social wellbeing.

Within the team, many have completed bereavement training and there are three Menopause Champions who are able to provide one-to-one support.



## Giving our employees a voice

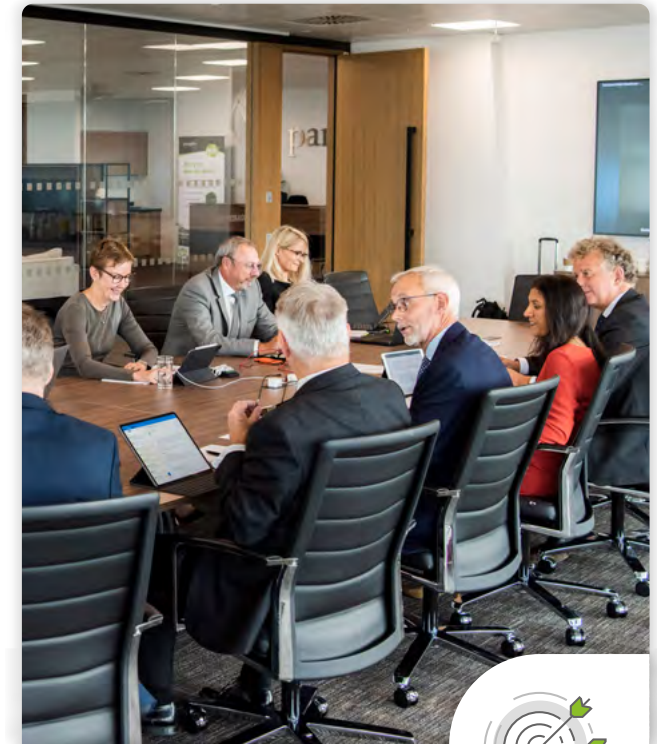
We fully understand the importance and benefit of keeping employees informed about Paragon's progress and we implement a range of initiatives to encourage and deepen that engagement.

### People Forum

Comprising 30 people, representing each part of the business, our People Forum facilitates communication and dissemination of information across the Group. It enables employees to be consulted and provides feedback on matters affecting them. It's the primary way the Board and Executive Committee receives information on the views of the workforce. Non-executive Directors also regularly attend the meetings to discuss certain topics.

The Forum met six times during 2022 and feedback helped formulate post-pandemic hybrid working and return to office arrangements.

The Forum was recognised as one of the 'Teams of the Year' for its work on engaging with employees during and immediately after the pandemic.



## 2023 focus areas

- Achieve FTSE Women Leaders target of 40% of Board membership to be female by 2023
- Increase the diversity of senior leadership across the Group, with a focus on gender and ethnicity
- Increase the amount of 'earn and learn' positions across the Group, working towards our target of 5% within five years
- Launch new talent development programme for minority groups



# Contributing to our communities

It's been a challenging year for society, which is why positively impacting the communities in which we live and work has been more important than ever. For several years we've been involved with community volunteering and charitable partnerships, but this year has seen Paragon step up to deliver more support than ever before.

**286**  
volunteering days in 2022  
(2021: 49)

**£75,000+**  
charitable contributions and money raised in 2022  
(2021: £73,000+)

**50+**  
different charitable organisations supported through donations and volunteering

## Charity

We contribute to local charities throughout the year by way of single donations directly from the company. During 2022, we gave more than £43,000 through 44 separate donations to support the communities in which we operate. These charities include Dudley Town Football Club, Wessex Children's Hospice Trust and Solihull Junior Barons Ice Hockey Club.



Paragon is a long-standing supporter of Help Harry Help Others, which supports families affected by cancer. This year, as well as providing a £500 donation, we also entered a five-a-side team in its annual football fundraising tournament.



## Charity of the Year

Our dedicated and generous people play a huge part in raising money for those in need. Every year, our employees select a Charity of the Year, and our Charity Committee, made up of employee volunteers, organises a variety of fundraising activities. This has the added benefit of bringing people together and supporting our values and culture.

In 2022, our Charity of the Year was Mind, which provides advice and support for people who are experiencing mental health problems. Our people came together to walk Snowdon, take on a 24-hour non-stop cycle ride, trek through forests, donate bags of clothes, bake cakes and buy raffle tickets, raising an incredible £31,000. This partnership extended to Mind presenting to our employees, highlighting some of the information and resources available for people caring for those with mental health issues.

On top of this, Paragon employees also raised more than £1,300 which was shared between Marwell Wildlife Fund, Kings Community Church Foodbank, Naomi House and Jacksplace, Hampshire and Isle of Wight Air Ambulance, and NHS Charities Together.

**£31,000**  
to Mind, our charity of the year

**£43,000**  
company donations to local charities and communities



Our Charity Committee was able to use our Summer Spectacular event to raise funds for some of our favourite causes.



**newlife**  
THE CHARITY FOR DISABLED CHILDREN  
For 2023, our Charity of the Year will be Newlife and we're aiming to raise £35,000 to support disabled and terminally ill children across the UK.

# Volunteering

We offer every employee at Paragon one paid day off each year to support volunteering projects to help make a difference in our local communities. We focus our volunteering projects on three key areas:



- 1. Supporting people who are experiencing poverty
- 2. Strengthening education of school children and young people
- 3. Improving the local environment



We achieved 286 volunteering days in 2022, which means 19% of Paragon employees were engaged in volunteering activities. The London Benchmarking Group quotes an average employee participation figure of 14%.

The projects that benefited from these 2,200 volunteering hours include SIFA Fireside, St Basils, Christians Against Poverty, Canal & River Trust, LoveSolihull, Marwell Zoo, Weddington School and Reynolds Cross School.

As well as supporting local, UK-based projects, following the outbreak of the war in Ukraine, employees co-ordinated a food and basic supplies delivery to Poland, to support Ukrainian refugees flooding across the border. Two vans were filled full of donations including food, nappies, baby milk and other basic supplies.



During Christmas 2021, our people went above and beyond to support the Christians Against Poverty Christmas hamper appeal. This year we filled 51 hampers for families in need, as well as providing additional surprise gifts.



We knew we could expect a varied selection of hampers filled to the brim with gifts for our clients from Paragon. However, once again, our hopes and expectations were exceeded. All the helpers, when they saw the hampers, were taken aback by the care and thought that had gone into the gifts chosen and the way the hampers were being presented. It quite simply took our breath away.

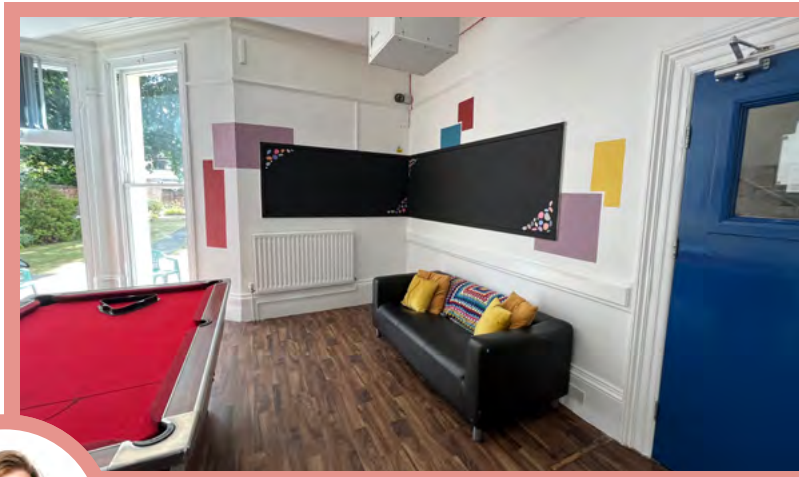
Owen O'Brien, Debt Centre Manager at CAP



## 2023 focus areas

- Raise £35,000 for Newlife, our Charity of the Year
- Increase our volunteering days across the Group to 400





**In our biggest ever volunteering project, more than 30 members from External Relations threw themselves into transforming the communal areas of a housing unit for young people and the result was outstanding. As well as making a difference to the everyday lives of residents, it gave us the opportunity to come together and work as a team, using our creativity and learning new skills.**

*Deborah Bateman, External Relations Director*



# Doing business responsibly

Being a responsible business and doing the right thing is engrained throughout Paragon. We actively promote good practice on a range of important issues and expect the same from our suppliers and other business partners.

We work hard to make sure we always do business the right way and this requires honest and proper conduct by our people, strong and fair relationships with our stakeholders and a robust governance structure.

Our business and activities are fully based in the UK and we operate within its legal and regulatory framework, recognising the importance of our responsibilities as a good corporate citizen.

**ESG TOPICS**

Governance and accountability

Responsible taxation

Human rights and modern slavery

Health and safety

Executive remuneration

Privacy, cyber security and data protection

## Board oversight

Climate change has been designated as a principal risk since 2020. This means information and measures on climate change risks and sustainability are considered at Board level and climate issues are prioritised in our decision-making processes. The Board is regularly updated on the business's progress on climate change and sustainability.

The Chief Financial Officer (CFO) is designated as the Director responsible for climate change matters and has an individual performance target to understand and assess the financial risks from climate change and oversee these risks within the firm's overall business strategy and risk appetite.



**The way we do business, alongside our environmental and social commitments, is underpinned by governance that goes beyond meeting our legal requirements. We are absolutely committed to the highest standards of business integrity and professionalism in everything we do.**

Richard Woodman, Chief Finance Officer

## Sustainability Committee

An established Sustainability Committee is a dedicated sustainability governance function with a broad ESG perspective and reports to the Executive Committee and Board on a regular basis.

Three working groups, comprising people from across the business, report into the Sustainability Committee, ensuring the broad scope of ESG and climate change are identified and managed across the Group. In addition, the Managing Directors provide business updates on their sustainable products and key developments across their business areas.

## Climate and sustainability reporting structure



In addition to the reporting structure, outlined the Sustainability Committee and its working groups will support and provide relevant reports to the Executive Risk Committee and its sub-committees where appropriate.

## Employee Code of Conduct

During 2022, we rolled out our employee Code of Conduct which brings together the high standards of behaviour we expect from everyone at Paragon into one central document. All our people have been assigned a copy of the Code and 100% have confirmed they have read and understood it.



## Learning together

Working in the banking environment means our employees need to understand the different rules and regulations we must adhere to, to support our customers properly and operate fairly. To help with this, all employees take part in structured learning throughout the year covering topics ranging from vulnerable customers, data privacy and information security to money laundering and operational resilience. 13 modules were completed in 2022 with an average completion rate of 99.7%.

## Enterprise Risk Management Framework (ERMF)

Our ERMF provides a structured approach to the management of the risks we face in achieving our objectives. It ensures that all those risks are identified and proactively managed in a consistent way, enabling us to protect and create value for all our stakeholders.



## Resilience and business continuity

Our financial and operational resilience and business continuity frameworks are designed to ensure we can continue to support our customers in the event of unexpected business interruption. It focuses on fully understanding and safeguarding critical processes, together with our ability to continue delivery of key services at acceptable pre-defined levels. Our established business continuity framework is certified to ISO220301: 2019.

## Financial crime

Protecting our business and our customers against financial crime and corruption is a priority. We have procedures in place to make sure Paragon is not used to facilitate money laundering, sanctions abuse or other forms of financial crime, and all business heads are responsible for having appropriate controls in place to ensure employees adhere to strict policies and fulfil regulatory and legislative obligations.

## Anti-corruption

We conduct our business fairly, openly and honestly and have a zero-tolerance policy towards any type of bribery and corruption. We follow the requirements of the Bribery Act 2010 and have a comprehensive anti-bribery and corruption policy, covering all employees and operated throughout the Group.

## Health and safety

We take the health and safety of our employees seriously and are compliant with all applicable legal requirements. We have implemented best practice management standards across our businesses to provide a safe working environment for all our employees, contractors and visitors to our premises, and those impacted by our operations in public areas.

## Data protection

The protection of customers' data is an ongoing concern for them and, as a bank, the data we collect and store is sensitive. We understand the responsibility we have to protect this data and as such have policies and practices in place to ensure it is kept safe and is used responsibly. We have a defined Data Protection Policy and are certified to the international standard for Information Security, ISO27001. Supporting policy standard documents are visible to all employees across the Group and must be adhered to.

## Taxation

All our taxable income arises in the UK. Our tax strategy is to comply with all relevant tax obligations and co-operate fully with the tax authorities. We publish a tax strategy document on an annual basis, outlining our approach in relation to UK taxation.

## Supplier relationships

Across Paragon we work with third-party suppliers who are essential to keeping our business running and ensuring we meet the needs of our customers. We are committed to the fair treatment of all suppliers, and in return we expect our suppliers to help deliver a high standard of service to our customers and to act responsibly.

Our Supplier Code of Conduct sets out our overall approach to supplier engagement and the standards of behaviour we expect from our suppliers. We have robust processes and controls in place to ensure all elements of our procurement cycle are managed responsibly.

We are a signatory to the UK's Prompt Payment Code, administered by the Office of the Small Business Commissioner, to ensure suppliers are treated fairly in respect of payment terms and receive payment on time. We also aim to ensure all our small business suppliers are paid within 30 days.



## Whistleblowing

We want our people to feel able to raise concerns safely and without fear of recrimination. We have an established whistleblowing procedure in place and a hotline, operated by Protect, a third-party charity, available to all employees who have any concerns about wrongdoing within the business.



## Human rights

A respect for human rights is implicit in our values. We take steps to anticipate, prevent and mitigate any potential negative human rights impacts. We also enhance positive impacts through our policies and procedures and through our policies regarding employment, equality and diversity, treating customers fairly, and information security. Our Board and the Chief Executive have overall responsibility for ensuring all areas across the Group uphold and promote respect for human rights.

We support the objectives of the Modern Slavery Act 2015 and we are committed to making sure there is no slavery, servitude, forced or compulsory labour or human trafficking in our supply chain or any part of our operations.

## Executive remuneration

For several years, through our long-term incentive plan awards for senior managers, our remuneration structures have included risk, governance, customer and people metrics. For awards granted in December 2022, we are introducing a climate metric into the Paragon Performance Share Plan, which will look at the Group's operational emissions and the financed emissions attributable to asset portfolios. This reflects our strategic aim to reduce the impact our operations have on the environment and ensures that we are considering all aspects of sustainability when deciding reward outcomes.

In addition to long-term award structures, ensuring good customer outcomes and support for our customers also form clear and regular strands in the annual bonus targets for the CEO, CFO and other members of Executive Committee. The CFO has additional ESG related metrics due to his Senior Management Function responsibility for the financial risks related to climate change.

## Controversial sectors

The sectors we lend to have a significant contribution to our risk exposure, with more controversial and highly regulated sectors posing a greater reputational and financial risk to our business. To mitigate this, our credit policy prohibits lending to the follow sectors:

- public houses and bars
- licensed clubs
- gambling and betting activities
- activities of political organisations
- manufacturers of weapons and ammunition

We also only lend to UK based entities. This mitigates lending to governments which do not align with our moral values or present undue risk.



## 2023 focus areas

- Launch revised Supplier Code of Conduct
- Conduct ESG due diligence questionnaire for new suppliers
- Strengthen risk culture through the introduction of new minimum controls standards, further reporting on enhancements to metrics not yet available and a comprehensive risk maturity survey

# Glossary

<b>BEIS</b>	Department for Business, Energy & Industrial Strategy	<b>MWh</b>	Megawatt hours
<b>CO<sub>2</sub>e</b>	Carbon dioxide equivalent	<b>NPS</b>	Net Promoter Score
<b>DEFRA</b>	Department for Environment, Food & Rural Affairs	<b>OFGEM</b>	Office of Gas and Electricity Markets
<b>EDI</b>	Equality, Diversity and Inclusion	<b>PCAF</b>	Partnership for Carbon Accounting Financials
<b>EPC</b>	Energy Performance Certificate	<b>PPC</b>	Prompt Payment Code
<b>ERMf</b>	Enterprise Risk Management Framework	<b>PRS</b>	Private Rented Sector
<b>ESG</b>	Environmental, Social and Governance	<b>SASB</b>	Sustainability Accounting Standards Board
<b>FCA</b>	Financial Conduct Authority	<b>SIC</b>	Standard Industrial Classification
<b>FSCS</b>	Financial Services Compensation Scheme	<b>SFS</b>	Specialist Fleet Services Limited
<b>FTSE</b>	Financial Times Stock Exchange	<b>SLDP</b>	Senior Leadership Development Programme
<b>GHG</b>	Greenhouse Gases	<b>SME</b>	Small and Medium-sized Enterprises (<250 employees and <£25.9m annual turnover)
<b>IIP</b>	Investors in People	<b>TCFD</b>	Task Force for Climate-related Financial Disclosures
<b>ISO</b>	International Standards Organisation	<b>The Group</b>	Paragon Banking Group PLC and all its subsidiary undertakings
<b>LGBTQ+</b>	Lesbian, Gay, Bisexual, Transgender, Queer +	<b>WEF IBC</b>	World Economic Forum International Business Council
<b>LTIP</b>	Long-term incentive plan		
<b>MI</b>	Management information		



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