

Paragon Banking Group PLC

Type of Engagement: Annual Review

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Engagement Team:

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Introduction

In March 2021, Paragon Banking Group PLC ("Paragon" or the "Group") issued a green bond¹ aimed at financing future loans that are expected to increase the energy efficiency of residential buildings in the UK. In 2022, Paragon engaged Sustainalytics to review the projects funded through the issued 2021 green bonds as of 31 March 2022 and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Paragon Green Bond Framework² (the "Framework"). Sustainalytics has provided a second-party opinion on the Framework in March 2021.³

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the 2021 green bonds as of 31 March 2022 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs.

Table 1: Use of Proceeds, Eligibility Criteria, and associated KPIs

Use of Proceeds	Eligibility Criteria	Key performance indicators (KPIs)
Green Buildings	The Eligibility Criteria for Paragon's Green Bonds is for Green Residential Real Estate, where new or existing residential buildings belonging to the top 15% low carbon buildings in the region, include buildings certified, or to be certified, with an Energy Performance Certificate (EPC) label "A" or "B" in England and Wales.	<ul style="list-style-type: none"> • Breakdown of the Eligible Green Loan Portfolio by EPC band • Estimated ex-ante annual avoided emissions (tCO₂/year) • Estimated average annual CO₂ emission intensity (KgCO₂/m²/year) • Estimated annual carbon emissions avoided per every £1m of proceeds allocated (tCO₂/year/£1m)

¹ The issuance is in the form of Fixed Rate Reset Callable Subordinated Tier 2 Notes.

² Paragon Green Bond Framework is available at its website at: <https://www.paragonbankinggroup.co.uk/resources/paragon-group/documents/green-bond/paragongreenbondframeworkmarch2021>

³ Sustainalytics second-party opinion for Paragon Green Bond Framework is available at Paragon's website at: <https://www.paragonbankinggroup.co.uk/resources/paragon-group/documents/green-bond/paragongreenbondframeworksecondpartyopinion>

Issuing Entity's Responsibility

Paragon is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Paragon's Green Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from Paragon employees and review of documentation to confirm the conformance with the Paragon Green Bond Framework.

Sustainalytics has relied on the information and the facts presented by Paragon with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Paragon.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,⁴ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of Paragon's Green Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Paragon Green Bond Framework. Paragon has disclosed to Sustainalytics that of the total GBP 150 m issuance, 95% of the 2021 green bond proceeds were allocated⁵ and a balance of GBP 7.9m unallocated proceeds will held and/or invested in cash or other short term liquid instruments in accordance with Paragon's liquidity policy.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the green bond in 2021 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Paragon Green Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the green bond in 2021 to determine if impact of projects was reported in line with the KPIs outlined in the Paragon Green Bond Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

⁴ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

⁵ Paragon intends to fully allocate the proceeds from any Green Bonds within 24 months of the date that the respective bonds were issued.

Appendix

Appendix 1: Allocation and Impact Reporting by Eligibility Criteria

In March 2021, Paragon issued a green bond with a value of GBP 150 million. The total allocation till 31st March 2022, was GBP 142.1 million. The proceeds are intended to be fully allocated within 24 months of the issuance. Of the current allocation of GBP 142.1 million, 100% of net proceeds were used to finance new projects. The table below provides a detailed break-up of the allocation of net proceeds.

Table 3: Eligible green loan portfolio

Use of Proceeds Category	Environmental Impact Reported by Eligibility Criteria	No. of loans	Net Bond Proceeds Allocation (in million pounds)	Percentage by balance (%)
Green Buildings	EPC Label "A"	6	1.9	1.3
	EPC Label "B"	589	140.2	98.7
	Total	595	142.1	100

Chart 1: Geographic distribution of green loans

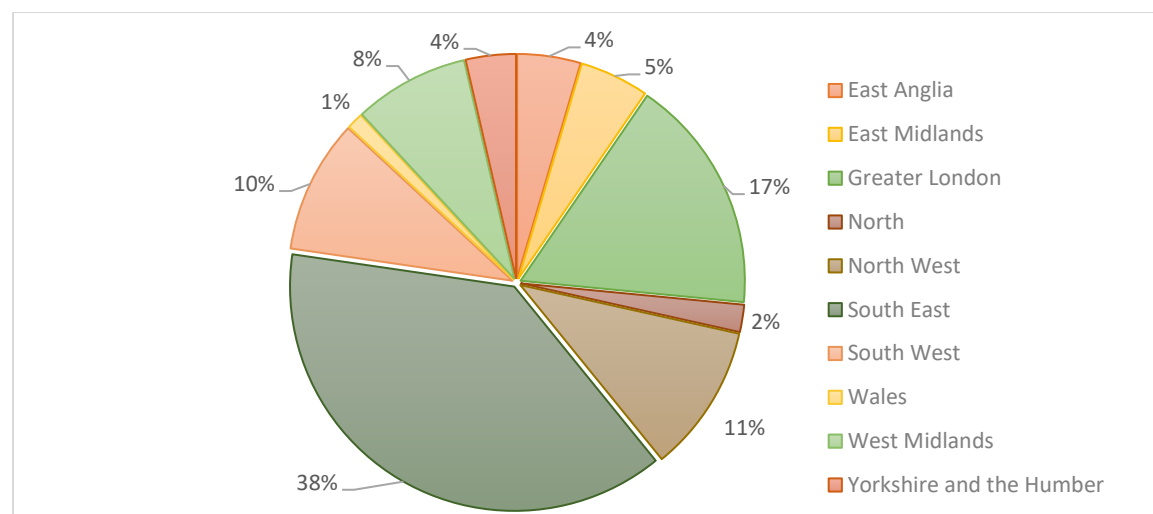


Table 4: Total environment impact reporting⁶

No. of Loans	Sum of allocated Eligible Green Loans (in million pounds)	Baseline emission intensity (KgCO ₂ /m ² /year) ⁷	Estimated average annual CO ₂ emission intensity (KgCO ₂ /m ² /year)	Estimated ex-ante annual avoided emissions (tCO ₂ /year)	Estimated annual carbon emissions avoided per every £1m of proceeds allocated (tCO ₂ /year/£1m)
595	142.1	42.55	15.60	-1,017.42	-7.16

⁶ Sustainalytics has reviewed the methodology for calculation. The issuer's approach for calculating Green Loan Portfolio's environmental impact is aligned to PCAF's and SBTi's recommendation and the detailed calculation methodology is available in the environmental impact reporting section of the investor report available on Paragon's website at: <https://www.paragonbankinggroup.co.uk/investors/fixed-income/green-bond>

⁷ The baseline is calculated by dividing the total emissions by the total floor area of all valid EPCs in the EPC data set which is available at: <https://epc.opendatacommunities.org/>

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