



GREEN BOND INVESTOR REPORT

Paragon Banking Group PLC

May 2023

paragon

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INTRODUCTION

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

We have made a commitment to achieve net zero by 2050 but in doing so we recognise that net zero cannot be achieved in isolation. Our net zero commitment will not be achieved without significant and continued support from government policy and industry. Decarbonisation and supporting the UK ambition to reduce greenhouse gas emissions to net zero by 2050 is of critical importance. Our Green Bond Framework reflects our commitment to embed sustainability throughout our strategy, operations, and product offerings including our funding and capital raising activities.

To find out more about sustainability at Paragon please visit:

[Sustainability | Paragon Banking Group](#)

This investor report is published annually, until full allocation of all the proceeds, and thereafter in case of any material change to the allocation, to meet our reporting commitments as outlined in the Green Bond Framework. The investor report contains details of the fully allocated Eligible Green Loan Portfolio (the “Green Loan Portfolio”), consisting of newly originated buy-to-let mortgages by Paragon Bank PLC since March 2021 secured against properties with an A and/or B Energy Performance Certificates and quantitative environmental impact reporting.

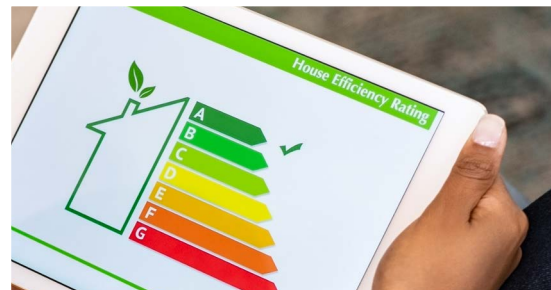
Following full allocation, we will annually publish the Report without the support of an external review unless there is a material change to the allocation of proceeds.



Paragon's sustainability highlights

We continue to make progress across the areas of focus set out in our inaugural **2021 Responsible Business Report**. The areas of focus make up our ESG landscape which we continue to positively influence, improving the environment in which we live and work. Our latest Responsible Business Report is available [here](#). Some of our ongoing sustainability highlights are as follows:

- We have committed to be operationally net zero by 2030 and in support we offset our 2022 operational footprint carbon emissions through the purchase of certified carbon offsets. We understand that offsetting is not a long term solution but aims to mitigate current emissions whilst incentivising long term action by applying an internal carbon price across our operations.
- 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 continue to support the wider efforts of the financial services industry and aim to minimise any negative impact we have on climate change.
- We continue to have a significant presence in key forums for sustainable financing, helping to positively influence market-wide change. Forums such as UK Finance, the Mission Zero Coalition, and the Partnership for Carbon Accounting Financials (PCAF) encourage collaboration and enables us to influence policy which catalyses shorter term action.
- We have launched a range of green mortgage products incentivising our landlord customers to invest in more efficient properties. In support of this our credit policy has been updated to allow applicants to apply for properties with solar panels. We also continue to work towards developing retrofit options to support our customers in improving their energy efficiency.
- We continue to offer tailored finance for green assets to our SME customers and brokers. The Financing a Better Future campaign helped establish customers' appetites for more sustainable equipment, machinery and vehicles. Examples of how we have helped sustainable businesses or customers become more sustainable is available through our news releases.
- We have launched our Green Homes Initiative, to support and incentivise housebuilders developing new domestic properties with the highest energy performance standards.
- Across our motor finance division we previously expanded our product range to include lending on battery electric vehicles and have since further expanded the range to include lending on battery-powered light commercial vehicles.
- We continue to perform our annual climate change scenario analysis exercise to identify key drivers of climate change risk and opportunities across Paragon. This year's assessment utilises the outputs of the Climate Financial Risk Forum (CFRF) scenario analysis working group, of which Paragon is a member, and the results will be delivered as part of the 2023 ICAAP (Internal Capital Adequacy Assessment Process).



GREEN BOND FRAMEWORK OVERVIEW

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

Summary

Use of Proceeds	The Eligibility Criteria for Paragon's Green Bonds is for Green Residential Real Estate, where new or existing residential buildings belonging to the top 15% low carbon buildings in the region, include buildings certified, or to be certified, with an Energy Performance Certificate (EPC) label "A" and/or "B" in England and Wales.
Process for Project Evaluation and Selection	The Sustainability Committee is specifically responsible for reviewing and approving, as appropriate, Eligible Green Loans based on the defined Eligible Categories listed by the Use of Proceeds on a quarterly basis.
Management of Proceeds	Paragon intends to allocate an amount equal to the proceeds from the issue of Green Bonds to an Eligible Green Loan Portfolio. Paragon intends to fully allocate the proceeds from any Green Bonds within 24 months of the date the Bonds were issued. This year's Green Bond Report (the "Report") contains the full allocation of the proceeds up to 31 March 2023 to align with our financial reporting calendar.
Reporting	This year's Report contains the full allocation of the Bond proceeds. Following full allocation, Paragon will annually publish the Report without the support of an external review unless there is a material change to the allocation of proceeds.
External Review	Paragon's Green Bond issuance is supported by external reviews. Paragon will release on an annual basis, at least until full allocation of all the proceeds, starting one year after issuance, a verification or assurance report, by Sustainalytics, including the allocation of the bond proceeds to Eligible Green Loans and compliance of the allocated loans with the selection process and reporting metrics.



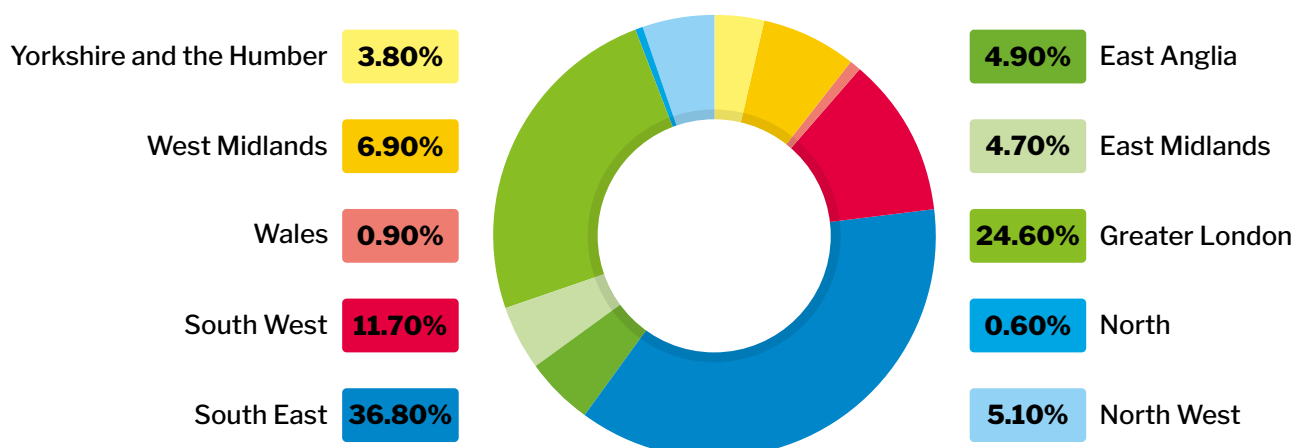
GREEN BOND REPORTING

ALLOCATION REPORTING

Summary

Issuer	Paragon Banking Group PLC
Notes	Fixed Rate Reset Callable Subordinated Tier 2 Notes
Currency	GBP
Aggregate Principal Amount	£150 million
ISIN	XS2312738599
Pricing date	17 March 2021
Issue Date	25 March 2021
Reset date	25 September 2026
Maturity date	25 September 2031
Category of Eligible Green Loans	All funds will be allocated to Green Residential Real Estate with an EPC of A and/or B
Number of Eligible Green Loans	471
Total amount of proceeds allocated to Eligible Green Loans	£150.5 million
Bond proceeds allocated	100%
Balance of unallocated proceeds	£0.0 million
Finance or Refinance	100% Finance
Reporting Date	31 March 2023
SPO	Sustainalytics

Geographic distribution of Eligible Green Loans

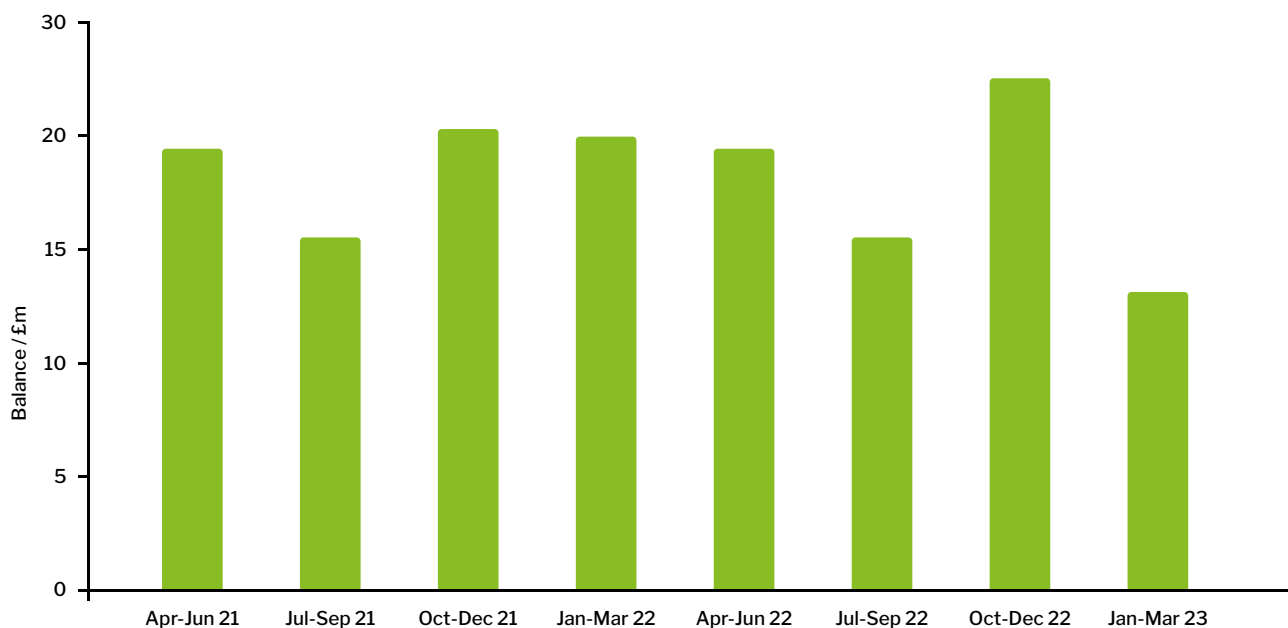


IMPACT REPORTING

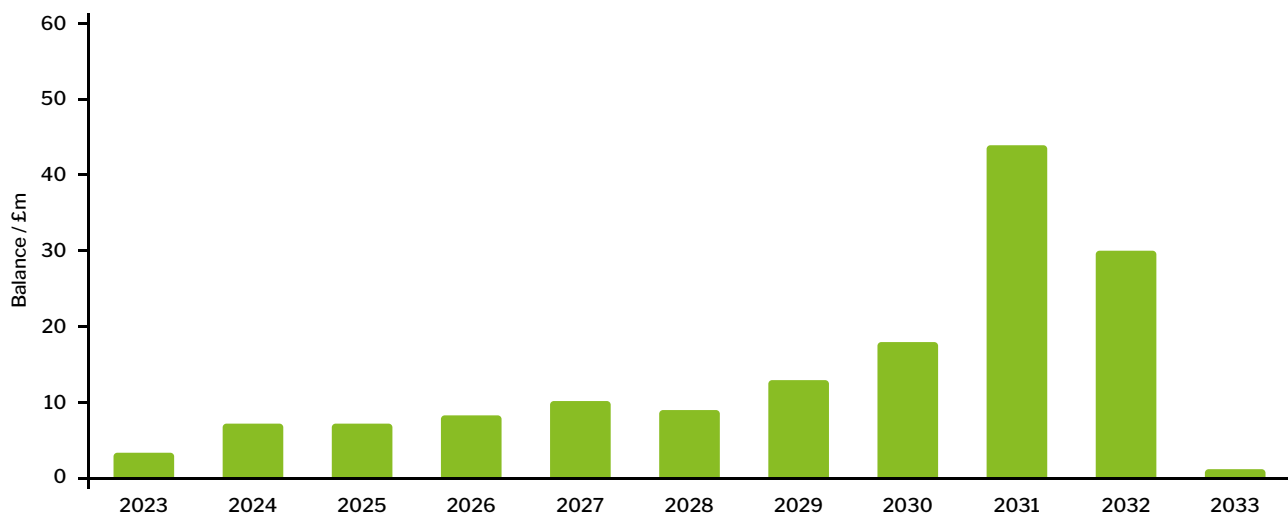
Eligible Green Loan Portfolio environmental characteristics

EPC Band	No. of Loans ^a	Sum of allocated Eligible Green Loans	% by balance	Estimated average annual CO ₂ emission intensity (KgCO ₂ e/m ² /year)
A	18	£5.2m	3.4%	
B	453	£145.3m	96.6%	
Green Loan Portfolio	471	£150.5m	100.0%	11.78

Seasoning of loans by advance month

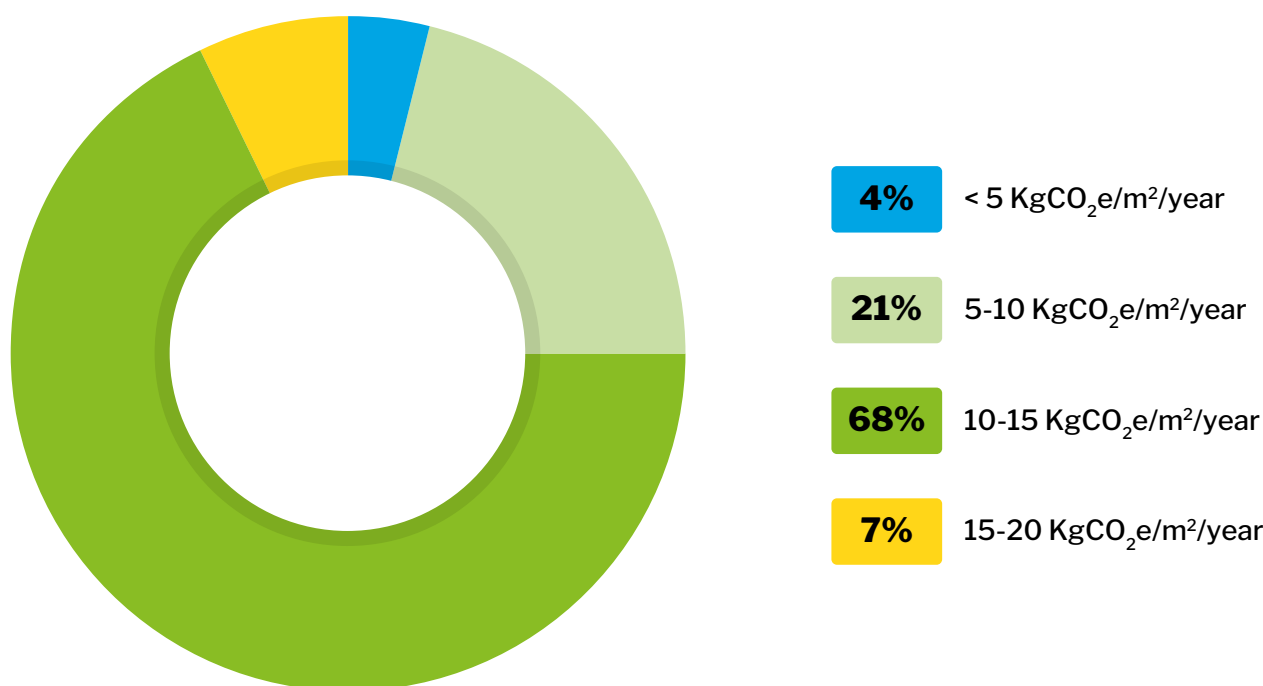


EPC expiry date of eligible loans



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

Emission intensity of Green Loan Portfolio KgCO₂e/m²/year



ENVIRONMENTAL IMPACT REPORTING

Environmental impact reporting results

This section of the report shows the results and methodology for estimating potential avoided carbon emissions versus the national EPC average for the properties included in the Eligible Green Loan Portfolio. All calculations are based on loan data as of 31 March 2023 and on the most recent EPC data release for England and Wales^b (the “EPC dataset”).

	No. of Loans	Sum of allocated Eligible Green Loans	Domestic Baseline emission intensity (KgCO ₂ e/m ² /year)	Estimated average annual CO ₂ emission intensity (KgCO ₂ e/m ² /year)	Estimated ex-ante annual avoided emissions (tCO ₂ e/year)	Estimated annual carbon emissions avoided per every £1m of proceeds allocated (tCO ₂ e/year/£1m)
	471	£150.5m	41.77	11.78	-1,083.35	-7.20
Methodology described below			(1)	(2)	(3)	(4)

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

Environmental impact reporting methodology

(1) Baseline

Portfolio emissions intensity refers to financed emissions per unit of activity data. In the case of Green Residential Real Estate this is CO₂e/m²/year.

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

Domestic baseline emission intensity (KgCO₂e/m²/year) =

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

	EPC dataset
Total emissions (KgCO ₂ e/year)	52,219,833,000
Total floor area (m ²)	1,250,250,616
Domestic Baseline emission intensity (KgCO ₂ e/m ² /year)	41.77

^bThe Green Loan Portfolio uses EPC data as of 31 March 2023. The latest EPC dataset at the time of writing the report contains all lodgements up until 28 February 2023. Due to the delay in updating the EPC dataset the baseline has a separate reference date.

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

(2) Green Loan Portfolio average emission intensity

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

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

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

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

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

Green Loan Portfolio average emission intensity (KgCO₂e/m²/year) =

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

	Green Loan Portfolio
Total attributed emissions (KgCO ₂ e/year)	425,696
Total attributed floor area (m ²)	36,130
Average emission intensity (KgCO ₂ e/m ² /year)	11.78

The average emission intensity for the Green Loan Portfolio is 11.78 KgCO₂e/m²/year, which is 72% lower than the EPC dataset average of 41.77 KgCO₂e/m²/year. The lower emissions of the properties in the Green Loan Portfolio is the basis of which we have estimated the avoided emissions.

(3) Estimated ex-ante annual avoided emissions

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

Annual estimated avoided emissions (tCO₂e/year) =

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

^dFinancial institutions - Science Based Targets - Commercial Real Estate and Residential Mortgage Tool

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

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

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

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

Annual carbon emissions avoided per every £1m of proceeds allocated (tCO₂e/year/£1m)=
$$\frac{\sum \text{All eligible loans } ((\text{Property emission intensity} - \text{Baseline emission intensity}) \times \text{Property Floor Area} \times \text{Attribution factor})}{\sum \text{All eligible loans (Loan outstanding amount)}}$$

	Green Loan Portfolio
Estimated annual avoided emissions (tCO ₂ e/year)	-1,083.35
Sum of allocated Eligible Green Loans (£m)	£150.5m
Annual carbon emissions avoided per every £1m of proceeds allocated (tCO ₂ e/year/£1m)	-7.20

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





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