

Second-Party Opinion

Paragon Green Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Paragon Green Bond Framework is credible and impactful and aligns to the four core components of the Green Bond Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible category for the use of proceeds, Green Buildings, is aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that investments in green buildings will lead to positive environmental impacts and advance the UN Sustainable Development Goals ("SDGs") specifically SDGs 7 and 9.



PROJECT EVALUATION / SELECTION Paragon has established a Sustainability Committee (the "Committee") to be responsible for the project evaluation and selection. The Committee will ensure that the loans comply with the eligibility criteria set in the Framework. The Committee meets on a quarterly basis. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS The Treasury and Structured Finance team will be responsible for the management of proceeds, following a portfolio approach. Paragon intends to reach full allocation within 24 months after issuance. Pending full allocation, unallocated proceeds will be held and/or invested in cash or other short term liquid instruments following Paragon's liquidity policy. This is in line with market practice.



REPORTING Paragon Banking Group intends to report on allocation of proceeds on its website, on an annual basis, until full allocation. Allocation reporting will include the bond details, the total amount of proceeds allocated, the category and number of loans, the balance of unallocated proceeds, the share of financing vs. refinancing, and the geographical distribution of assets. In addition, Paragon Banking Group is committed to reporting on relevant impact metrics, such as estimated ex-ante annual avoided emissions (tCO₂/year) or estimated average annual CO₂ emission intensity (kgCO₂/m²/year). Sustainalytics views Paragon's allocation and impact reporting as aligned with market practice.

Evaluation Date	March 4, 2021
Issuer Location	Solihull, United Kingdom

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For inquiries, contact the Sustainable Finance Solutions project team:

Zach Margolis (Toronto)
Project Manager
zach.margolis@sustainalytics.com
(+1) 647 695 4341

Charles Cassaz (Amsterdam)
Project Support
charles.cassaz@sustainalytics.com
(+31) 20 205 02 09

Aoife McCarthy (Amsterdam)
Project Support
aoife.mccarthy@sustainalytics.com
(+31) 20 299 4690

Molly Stern (London)
Client Relations
susfinance.emea@sustainalytics.com
(+44) 20 3880 0193

Introduction

Paragon is a specialist banking group which offers a range of savings products and provides finance to landlords, small businesses and property developers in the UK. Founded in 1985, Paragon is listed on the London Stock Exchange and is a constituent of the FTSE 250 Index. Paragon employs approximately 1,400 people.

Paragon has developed the Paragon Green Bond Framework (the “Framework”) under which it intends to issue green bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future loans that are expected to increase the energy efficiency of residential buildings in the UK.

The Framework defines eligibility criteria in the area of Green Buildings.

Paragon engaged Sustainalytics to review the Paragon Green Bond Framework, dated February 2021, and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (“GBP”)¹ This Framework has been published in a separate document.²

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.7.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Paragon’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Paragon representatives have confirmed (1) they understand it is the sole responsibility of Paragon to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Paragon.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

¹ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

² The Paragon Green Bond Framework will be made available on Paragon Banking Group’s website at: <https://www.paragonbankinggroup.co.uk/green-bond>.

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Paragon has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Paragon Green Bond Framework

Sustainalytics is of the opinion that the Paragon Green Bond Framework is credible and impactful, and aligns to the four core components of the GBP. Sustainalytics highlights the following elements of Paragon's Green Bond Framework:

- Use of Proceeds:
 - The eligible category, Green Buildings, is aligned with those recognized by the GBP. Sustainalytics notes that the proceeds of the green bonds issued under the Framework are expected to increase the energy efficiency of residential buildings in the UK and advance the shift to a low-carbon economy.
 - Eligible loans under the Framework are those that finance residential buildings achieving EPC labels A or B. Based on the expectation that buildings with these EPC ratings are within the top 15% most energy-efficient in the local context, Sustainalytics views this criterion to be aligned with market practice and therefore well-suited for inclusion in green bonds.^{4,5}
 - Paragon will use the "Energy Efficiency" rating of the EPC, which is intended to provide a measure of the relative amount of energy, on a cost basis, required to operate the home as opposed to the Environmental Impact rating, which attempts to quantify the carbon emissions associated with the building. While carbon emissions provide a more direct measure of environmental performance,⁶ Sustainalytics recognizes that (1) the Efficiency metric provides a robust relative rating of building performance and (2) some of the factors influencing the Impact metric are beyond the control of individual homeowners.
- Project Evaluation and Selection:
 - Paragon has established a Sustainability Committee (the "Committee"), in charge of the project evaluation and selection. The Committee comprises representatives from the External Relations, Treasury and Structured Finance and Balance Sheet Risk teams. The Committee will ensure that the allocated loans comply with the eligibility criteria set in the Framework. The Committee meets on a quarterly basis. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - The Treasury and Structured Finance team will be responsible for the management of proceeds, following a portfolio approach. Paragon intends to reach full allocation within 24 months after issuance. Pending full allocation, unallocated proceeds will be held and/or invested in cash or other short term liquid instruments following Paragon's liquidity policy. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Paragon Banking Group intends to report on allocation of proceeds on its website, on an annual basis, until full allocation. Allocation reporting will include the bond details, the total amount of proceeds allocated, the category and number of loans, the balance of unallocated proceeds, the share of financing vs. refinancing, and the geographical distribution of assets.
 - In addition, Paragon Banking Group is committed to reporting on relevant impact metrics, including estimated ex-ante annual avoided emissions (tCO₂/year), estimated average annual

⁴ The "top 15%" threshold is endorsed by the Climate Bonds Initiative as well as the Report of the EU Technical Expert Group on Sustainable Finance.

⁵ As of June 2020, 10.8% of all dwellings in England and Wales obtained EPC labels A or B.

UK Government, "Live tables on Energy Performance of Building Certificates (Table D1)", at: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-energy-performance-of-buildings-certificates#epcs-for-all-domestic-properties-existing-and-new-dwellings>

⁶ The Climate Bonds Initiative uses the Environmental Impact score in its Location Specific Criteria for Residential Buildings for England and Wales. See: https://www.climatebonds.net/files/files/standards/Buildings/Building_Crit_Eng%20%26%20Wales.pdf

CO₂ emission intensity (kgCO₂/m²/year), and estimated annual carbon emissions avoided per every £1m of proceeds allocated (tCO₂/year/£1m). Based on these elements, Sustainalytics considers this process to be in line with market practice, and highlights the use of an emissions avoided-per investment amount metric as an area of good practice.

Alignment with Green Bond Principles 2018

Sustainalytics has determined that the Paragon Green Bond Framework aligns to the four core components of the GBP and GLP. For detailed information please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Strategy of Paragon

Contribution of framework to Paragon Banking Group's sustainability strategy

Paragon's sustainability approach is based on a stated recognition that climate change is one of the biggest challenges faced by the world today. As such, the Group designated climate change as a principal risk within its Risk Management Framework. Paragon established a climate change working group overseen by the Sustainability Committee and has been implementing operational sustainability initiatives, such as reducing power and water consumption and reducing waste generation and GHG emissions. In addition, the Company is committed to mitigating the external and/or downstream impacts of its lending activities.⁷

Paragon has made a commitment to lending sustainably.⁸ The Group has started to collect environmental data from its mortgage book to understand its external contribution to climate change. As of September 2020, 85% of Paragon's mortgage book had EPC records, 37.7% of its lending book was covered by certificates of grade C and higher, and 7.8% covered by certificates of grades A and B. Within its climate agenda, the Group seeks to expand on currently available information and enhance the use of the environmental data from its mortgage book.⁷ Sustainalytics notes that by financing energy-efficient residential buildings, Paragon could reduce the contribution of its lending activities to climate change.

In addition, Paragon intends to develop new products to encourage energy and carbon efficiency with the Green Finance Institute.² The Group participated in the drafting of the 'Sustainable Finance – establishing a principles-based framework for the measurement and reporting of multi-year commitments' paper published in November 2020 by UK Finance, a trade association for the UK banking and financial services sector.⁹ The paper focuses on the measurement and reporting of multi-year commitments to sustainable finance and intends to set-up a principle-based framework for reporting.² Sustainalytics notes that by issuing green bonds, the Group may enhance its involvement in sustainable finance.

Sustainalytics is of the opinion that the Paragon Green Bond Framework is aligned with the company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental priorities.

Well-positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the proceeds from the bonds issued under the Framework will be directed towards eligible loans that are anticipated to have positive environmental impact, Sustainalytics is aware that such eligible loans could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible loans, could include worker's health and safety, resource usage and waste generation during the construction, renovation, or operation of buildings. Furthermore, by offering lending and financial services, banks are exposed to risks associated with financing controversial companies and/or projects, and activities that have negative social or environmental impacts. Sustainalytics is of the opinion that Paragon is able to manage and/or mitigate potential risks through implementation of the following:

- Regarding worker health and safety, Paragon Group ensures good practice health and safety management standards are implemented and maintained across operations through the Group's Occupational Health and Safety Management System (OHSMS) which is certified to ISO45001:2018 and compliance with this certification is audited bi-annually by a UKAS accredited auditor. Additionally, the OHSMS which includes a health and safety policy, risk assessments, performance evaluation and regular health and safety management meetings, monitors performance, objectives,

⁷ Paragon Banking Group, "2020 Annual Reports and Accounts", (2020), at: <https://www.paragonbankinggroup.co.uk/investors/latest-annual-report>

⁸ Paragon Banking Group, "Lending sustainably", (2020), at: <https://www.paragonbankinggroup.co.uk/sustainability/lending-sustainably>

⁹ UK Finance, "Sustainable Finance – establishing a principles-based framework for the measurement and reporting of multi-year commitments", (2020), at: <https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/sustainable-finance-establishing-principles-based-framework-measurement-and-reporting-multi-year>

and targets. Regarding performance in health and safety, Paragon Group reports its accidents and incidents to have remained at a low level both in 2019 and 2020, whereby minor incidents reported to be 19 and 11 respectively.¹⁰

- Regarding environmental risk management, Paragon Group's Supplier Code of Conduct requires suppliers to consider the impact of their products, operations or services on the environment and have measures in place to manage these.¹¹ Additionally, the Company's Executive Risk Committee and Risk and Compliance Committee assist the Board in fulfilling responsibilities of risk management, as well as addressing emerging risks such as climate change. Furthermore, the Operational Risk Committee is responsible for overseeing the Group's operational risk and resilience management, including risks arising from the environment, technology and personnel.¹²
- Regarding resource usage and waste, Paragon's general waste produced at its principal sites is disposed through an approved Waste to Energy contractor, aligned with the waste hierarchy,¹³ resulting in no generated waste being disposed at landfill.¹⁴ Regarding resource use, the Group complies with the Energy Savings and Opportunities Scheme¹⁵, a UK Government initiative under the EU Directive Energy Efficiency Directive (2012/27/EU), which requires companies to identify and reduce energy consumption.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Paragon has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

The use of proceeds category is aligned with those recognized by the GBP. Sustainalytics has focused below on how the impact of energy efficient buildings is specifically relevant in the local context.

Importance of green buildings in improving energy efficiency in the UK

In 2019, direct greenhouse gas emissions from buildings in the UK were 65.2 MtCO₂, making up 19% of all CO₂ emissions.¹⁶ Of this total, approximately three quarters of emissions were from residential dwellings, with commercial and public buildings making up 14% and 10% respectively.¹⁷ According to the Committee on Climate Change (CCC), temperature-adjusted sectoral emissions increased 1% year-over-year, and have remained relatively flat since 2012, despite an economy-wide decrease in greenhouse gas emissions.¹⁷ The CCC further recommended a number of key policy options that it anticipates will be needed for the sector to achieve overall carbon reductions, including high standards for new buildings, efficiency improvements for existing structures, and the deployment of low-carbon heating.¹⁷

In line with the UK Government's net zero greenhouse gas emissions target by 2050,¹⁸ the UK has established a number of policies aimed at improving energy efficiency in buildings. Such policies include the 2018 Clean Growth Strategy and the Energy Efficiency Obligations in the household sector.¹⁹ These policies have resulted in measures such as the Energy Saving Opportunity Scheme (ESOS) which implements the Energy Efficiency Directive and the Energy Company Obligation (ECO), a requirement for energy suppliers to deliver enhanced energy efficiency.¹⁹ As a result of these efforts, residential energy consumption in buildings has decreased by 22% since 2000, owing to improved insulation, heating system upgrades and more efficient electrical and gas appliances within residential buildings.¹⁹

¹⁰ Paragon Banking Group, "Health and Safety" (2020), at: [Health and Safety | Paragon Banking Group](#)

¹¹ Paragon Banking Group, "Supplier Code of Conduct" (2020), at: [Supplier Code of Conduct | Paragon Banking Group](#)

¹² Paragon Banking Group, "Annual Report 2020", (2020) at: [2020 Annual Report and Accounts \(paragonbankinggroup.co.uk\)](#)

¹³ The waste hierarchy consists in giving priority to the prevention and reduction of waste and then to prioritize, in order: reuse, recycling and recovery of organic waste by return to the ground, any other recovery, in particular energy recovery and finally disposal. EUR-Lex, "Directive 2008/98/EC", (2008), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32008L0098>

¹⁴ Paragon Banking Group, "Caring for the Environment", (2020) at: [Caring for the Environment | Paragon Banking Group](#)

¹⁵ UK Government, "Energy Savings Opportunity Scheme" (2021), at: [Energy Savings Opportunity Scheme \(ESOS\) - GOV.UK \(www.gov.uk\)](#)

¹⁶ UK Government Department for Business, Energy & Industrial Strategy, "2019 UK greenhouse gas emissions, provisional figures", (2019), at: [UK greenhouse gas emissions, provisional figures \(publishing.service.gov.uk\)](#)

¹⁷ The Climate Change Council, "Reducing UK emissions: 2020 Progress Report to Parliament", (2020), at: [Reducing UK emissions: 2020 Progress Report to Parliament - Climate Change Committee \(theccc.org.uk\)](#)

¹⁸ The UK Government, "UK becomes first major economy to pass net zero emissions law", (2019), at: [UK becomes first major economy to pass net zero emissions law - GOV.UK \(www.gov.uk\)](#)

¹⁹ Odyssee-Mure, "United Kingdom Profile", (2020), at: [United Kingdom energy efficiency & Trends policies | United Kingdom profile | ODYSSEE-MURE \(odyssee-mure.eu\)](#)

Sustainalytics considers that investments in energy efficient buildings, with Energy Performance Certificates A or B, will support the achievement of these goals, and therefore views positively Paragon's financing of buildings that achieve these certificates.

Alignment with/contribution to SDGs

The SDGs were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bond(s) issued under the Paragon Green Bond Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

Conclusion

Paragon has developed the Paragon Green Bond Framework under which it will issue green bonds and the use of proceeds to finance loans for energy-efficient residential buildings. Sustainalytics considers that the loans funded by the green bond proceeds are expected to increase the energy efficiency of residential buildings in the UK.

The Paragon Green Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Paragon Green Bond Framework is aligned with the overall sustainability strategy of the company and that the green use of proceeds category will contribute to the advancement of the UN Sustainable Development Goals 7 and 9. Additionally, Sustainalytics is of the opinion that Paragon has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible loans funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Paragon Banking Group is well-positioned to issue green bonds and that the Paragon Green Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2018.

Appendix

Appendix 1: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Paragon Banking Group
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Paragon Green Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	March 4, 2021
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible category for the use of proceeds, Green Buildings, is aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that investments in green buildings will lead to positive environmental impacts and advance the UN Sustainable Development Goals ("SDGs") specifically SDGs 7 and 9.

Use of proceeds categories as per GBP:

- | | |
|---|--|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Paragon has established a Sustainability Committee (the "Committee") to be responsible for the project evaluation and selection. The Committee will ensure that the loans comply with the eligibility criteria set in the Framework. The Committee meets on a quarterly basis. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- ☒ Evaluation / Selection criteria subject to external advice or verification
 ☐ In-house assessment
- ☐ Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

The Treasury and Structured Finance team will be responsible for the management of proceeds, following a portfolio approach. Paragon intends to reach full allocation within 24 months after issuance. Pending full allocation, unallocated proceeds will be held and/or invested in cash or other short term liquid instruments following Paragon's liquidity policy. This is in line with market practice.

Tracking of proceeds:

- ☒ Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other (please specify):

Additional disclosure:

- ☐ Allocations to future investments only
 ☒ Allocations to both existing and future investments
- ☐ Allocation to individual disbursements
 ☐ Allocation to a portfolio of disbursements
- ☐ Disclosure of portfolio balance of unallocated proceeds
 ☐ Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Paragon Banking Group intends to report on allocation of proceeds on its website, on an annual basis, until full allocation. Allocation reporting will include the bond details, the total amount of proceeds allocated, the category and number of loans, the balance of unallocated proceeds, the share of financing vs. refinancing, and the geographical distribution of assets. In addition, Paragon Banking Group is committed to reporting on relevant impact metrics, such as estimated ex-ante annual avoided emissions (tCO₂/year) or estimated average annual CO₂ emission intensity (kgCO₂/m²/year). Sustainalytics views Paragon's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- ☐ Project-by-project
 ☒ On a project portfolio basis
- ☐ Linkage to individual bond(s)
 ☐ Other (please specify):

Information reported:

- ☒ Allocated amounts
 ☐ Green Bond financed share of total investment
- ☒ Other (*please specify*): bond details, total amount of proceeds allocated, category and number of loans, balance of unallocated proceeds, share of financing vs. refinancing, and geographical distribution of assets

Frequency:

- ☒ Annual
 ☐ Semi-annual
- ☐ Other (*please specify*):

Impact reporting:

- ☐ Project-by-project
 ☒ On a project portfolio basis
- ☐ Linkage to individual bond(s)
 ☐ Other (*please specify*):

Information reported (expected or ex-post):

- ☒ GHG Emissions / Savings
 ☐ Energy Savings
- ☐ Decrease in water use
 ☒ Other ESG indicators (*please specify*): estimated ex-ante annual avoided emissions (tCO₂/year), estimated average annual CO₂ emission intensity (kgCO₂/m²/year), and estimated annual carbon emissions avoided per every £1m of proceeds allocated (tCO₂/year/£1m)

Frequency

- ☒ Annual
 ☐ Semi-annual
- ☐ Other (*please specify*):

Means of Disclosure

- ☐ Information published in financial report
 ☐ Information published in sustainability report
- ☐ Information published in ad hoc documents
 ☒ Other (*please specify*): Green Bond Report
- ☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

- i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit www.sustainalytics.com.

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