

Contents

1. Chief Executive's introduction

2. Understanding Paragon

- Our purpose
- Our values
- Our strategy

3. Our ESG landscape

4. Our ESG journey

5. Helping our customers

- Our customer commitment
- Customer insight
- Vulnerable customers
- Listening to customer feedback
- Financial literacy and inclusion
- Financial wellbeing

6. Building a strong team

- Recruiting and retaining the right people
- Developing talent
- Diversity and inclusion
- Employee wellbeing
- Giving our employees a voice
- Keeping our people safe

7. Contributing to our communities

- Charity
- Volunteering

8. Minimising our footprint

9. Lending sustainably

10. Doing business responsibly

11. Further information

- Glossary

Welcome to our first 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 responsibilities into the following areas:

Helping our customers



Building a strong team



Contributing to our communities



Minimising our footprint



Lending sustainably



Doing business responsibly



Chief Executive's introduction

At a time when environmental, social and governance issues are increasingly in the spotlight, I'm pleased to introduce our inaugural Responsible Business Report. Our objective is to demonstrate how sustainability – one of our key strategic priorities – is embedded across Paragon, together with the actions we're taking in areas where we believe we can make the greatest impact.

Given the scale of the global challenges society is facing, we believe the most important contribution we can make towards solving these challenges is by doing the right things for all our stakeholders as a responsible business.

Our purpose and values are embedded throughout Paragon, underpinning how we operate, what we stand for and how we work together to achieve our goals. Taking our responsibilities seriously, positively impacting all our stakeholders, reducing our environmental impact and building a culture in which our people can thrive have been our focus for many years.

The pandemic brought about many unprecedented challenges and I'm incredibly proud of how our people and our business responded. Our swift operational response and our actions to protect our people whilst supporting our customers, demonstrated our resilience, established over many years.

Covid-19 triggered a greater focus on the transition to a more sustainable future. This is not only true for Paragon, but also for the wider society both here in the UK and indeed globally.

Over the last two years we've seen progress at Paragon particularly in areas such as:

- Our focus on our customers, ensuring we offer the right support at a time when customers require extra help or when they are experiencing vulnerability for a variety of reasons
- The creation of Paragon's Equality, Diversity and Inclusion (EDI) Network, building on our commitment to be a more inclusive and diverse workplace
- Achieving our gender diversity targets reflecting increased female representation at senior levels across the Group
- The introduction of a range of sustainable mortgage products helping to incentivise landlords to purchase more energy efficient properties
- The launch of our green capital bond, which was the first by a UK bank, funding lending on properties with an EPC rating of A-B, helping to drive energy efficiency in the Private Rented Sector (PRS)
- A green homes initiative supporting housebuilders to develop new domestic properties with the highest energy performance standards
- Extending our motor finance lending to include electric vehicles

During 2020, Paragon's Board designated climate change as one of our principal risks, ensuring climate issues are prioritised in our decision-making process. We've also formed ESG and Climate Change teams as well as establishing a Sustainability Committee.

Although we're pleased with our progress, we recognise that, together with the wider banking sector and indeed wider society, we all need to do more to build a sustainable future. At Paragon we're committed to playing our part in achieving this for future generations.

The recent COP26 climate summit placed sustainable finance firmly on the agenda, with plans for the UK to become the world's first net zero aligned financial centre. We support the UK's ambition to reduce greenhouse gas emissions to net zero by 2050, whilst recognising there are many milestones to be reached across many industries in the country. We're well progressed in formulating a roadmap to reduce both our own operational footprint as well as the greenhouse gas emissions of our financed assets.

We also believe that sustainable finance will bring many opportunities and we're in a good place to leverage our balance sheet strength in support of the rapid developments in this emerging area as demonstrated by our growing sustainable finance product range.

Whilst there's a lot to do, the areas outlined in this report are a priority for Paragon and have the full commitment of our Board and Executive Committee. We remain focused on doing the right things as a business, for our people, for our customers and in our world, ensuring the long-term success of the Group and a more sustainable future for us all.



Nigel S Terrington
Chief Executive

Understanding Paragon

Paragon is a specialist banking group. 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 almost 1,450 people.

Our lending operations are split across two areas, Mortgage Lending and Commercial Lending, and our new lending is funded largely by retail savings deposits.



Mortgage Lending

We provide mortgage finance for UK landlords to support growth in the Private Rented Sector (PRS), giving people choice and flexibility in housing tenure.

- Buy-to-let mortgage accounts: 68,000+
- Loan assets: £11.6 billion

Commercial Lending

We support UK small businesses operating across a range of sectors with finance to help them grow. This includes finance for property developers and SMEs, motor finance and structured lending products for non-bank lenders.

- Commercial Lending loan accounts: 27,000+
- Loan assets: £1.6 billion

Savings

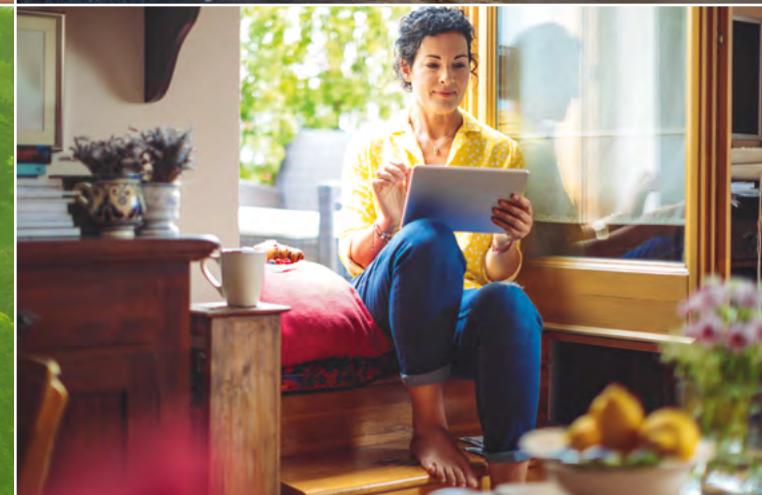
Since gaining our banking licence in 2014, our principal source of funding for new lending is through our range of savings products offered to UK savers.

- Savings accounts: 250,000+
- Total deposits: £9.3 billion

As a specialist bank, we focus on lending to customers in markets typically underserved by larger high street banks who require funding in specific areas.



This approach requires us to be experts in these areas; we seek to know more than our competitors about our customers, the markets in which we operate, the products and services we offer, and the risks we incur.



We see specialisation as what makes us different, it's our competitive advantage, and runs through our purpose and strategy.

Our purpose

Our purpose is 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 and today we are helping more than 400,000 customers to achieve their ambitions.

By living our purpose, we've already helped the UK to develop a thriving Private Rented Sector over the last 25 years. We've supported landlords across the country to invest in and build valuable businesses that deliver flexibility for those who choose to rent, homes for students and for people who simply can't afford to buy their own home. Our strict lending criteria also helps improve the quality of housing for the millions of people for whom the Private Rented Sector is their home.

We're helping property developers turn unused sites into new housing, helping to address the ongoing housing shortage in the UK, and small and medium sized businesses deliver post-pandemic recovery. We're supporting savers to reach personal goals – providing them with better returns to build a pot for a holiday or a deposit for a house.

Of course, it's also about our people. By living our purpose, we can help them achieve their own ambitions to grow and develop, to enjoy a successful career and to build strong foundations for their own lives.

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. We believe that living our values helps us succeed in fulfilling our purpose.



Fairness

To work together to ensure fair outcomes for all our customers



Professionalism

To maintain the highest standards and deliver our products and services with care and accuracy



Integrity

To be honest and open in everything we do



Humour

To ensure we have fun while achieving success!



Commitment

To drive the business forward with determination and to do so with effort and enthusiasm



Creativity

To identify and create new business opportunities and apply creative and effective solutions to problems



Teamwork

To work in harmony and collectively towards the delivery of our overall objective



Respect

To treat people as individuals and listen to their views

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 strategic 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 the 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 sophisticated, 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 ensuring a deep understanding of our specialist customers and markets.

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.

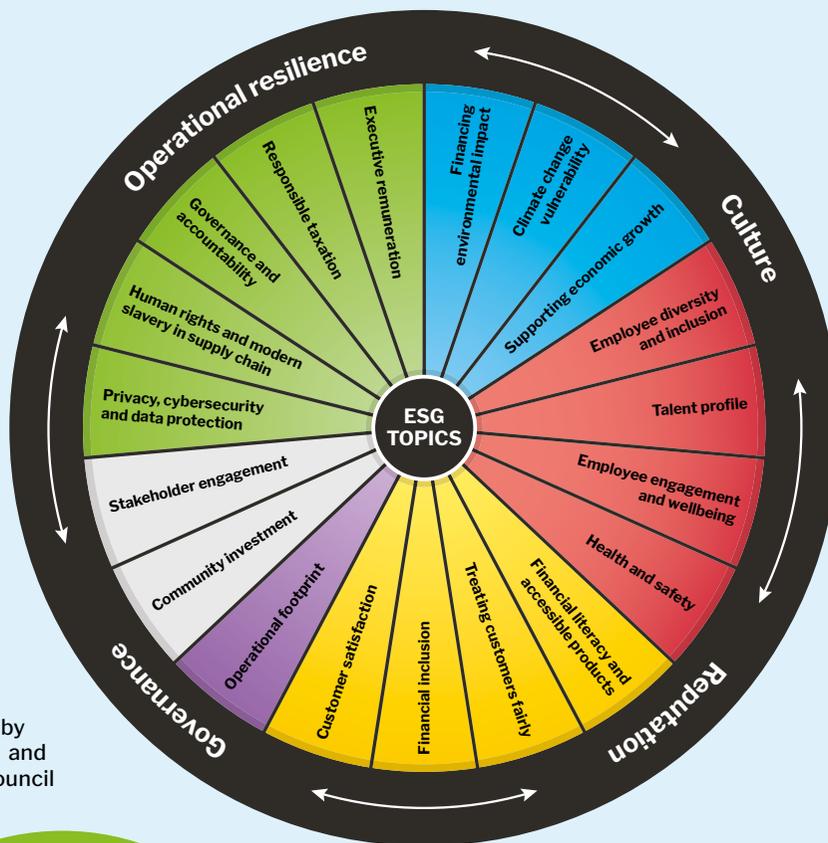
Our ESG landscape

Sustainability is one of our key strategic priorities and influences every aspect of our business. We aim to use our influence and resources wisely and understand our responsibilities towards society and the environment.

During 2021, to ensure we play our part in meeting the challenges faced by the banking sector in relation to climate change and wider ESG issues, we worked to identify, through the lens of dual materiality, the topics which have the biggest impact on our business and our stakeholders.

To prioritise the topics, we assessed the themes set by the Sustainability Accounting Standards Board (SASB) and the World Economic Forum's International Business Council (WEF IBC), and conducted extensive research, workshops and leadership interviews. Participants from senior management across Paragon, including the Board and the Executive Committee, took part in the process which prioritised each topic based on significance to both Paragon's business success and external stakeholders.

Through this exercise we identified 19 topics, our ESG landscape. Some of these topics have been in our consideration for many years while some are newer and therefore less well understood, further highlighting our focus areas.



Stakeholders

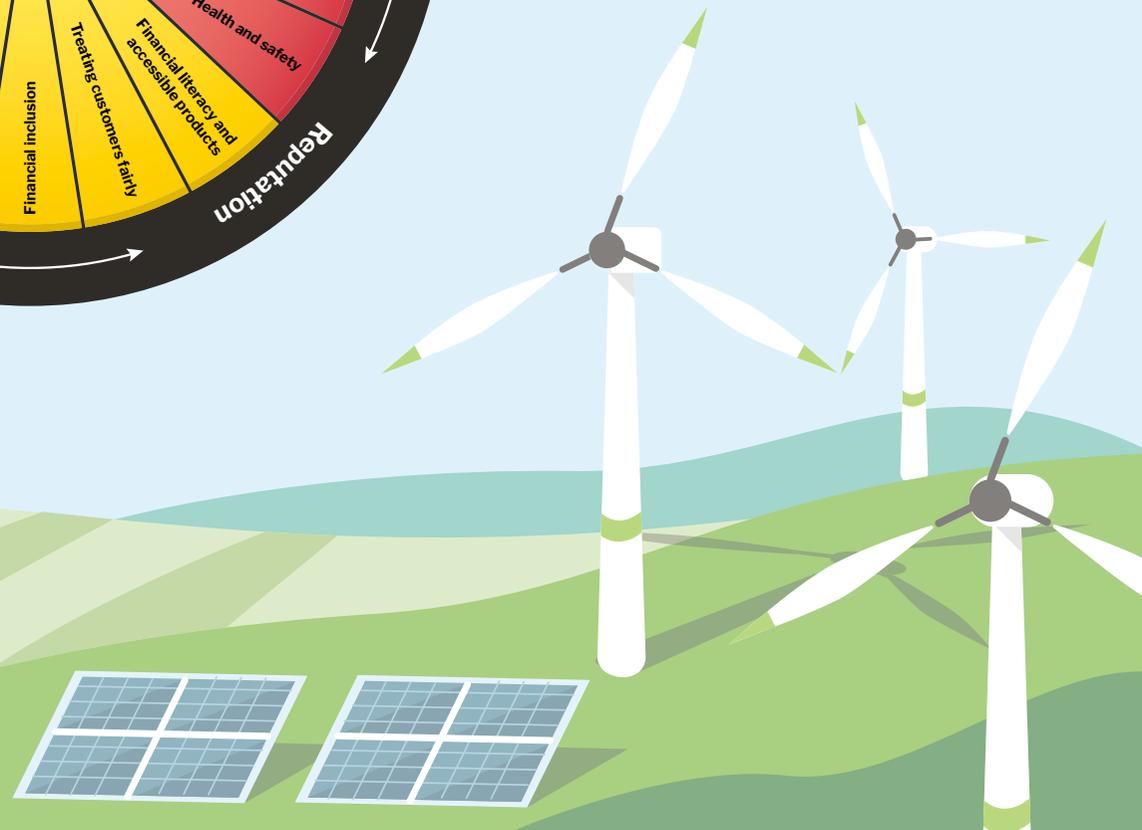
We understand that to consider the wider impacts of ESG in everything we do, we must take a multi-stakeholder approach. Our stakeholders include our customers (landlords, SMEs, savers), our colleagues, the communities in which we operate, investors and policymakers.

We explore each of these themes in more detail throughout this report.



Understanding how ESG touches every part of our business is essential. Our 19 ESG topics are each discussed in the six areas covered in this report, and to ensure a co-ordinated focus across the Group, we've established a Sustainability Committee and a series of working groups that are focused on driving improvements across our entire ESG landscape...

Deborah Bateman, External Relations Director and Chair of the Sustainability Committee



Our ESG journey

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.

1997

Our accreditation under the "Investors in People" scheme began



2000

Formation of our Charity Committee



2003

Started publishing our Corporate Social Responsibility section in our Annual Report

Published our Green Charter

2017

Anonymised CVs
Conducted our first annual Diversity survey
Formed our Customer Insight team

Established our Wellbeing Support Team



2016

Signed up to HM Treasury's Women in Finance Charter



Accredited by the Living Wage Foundation as a UK Living Wage Employer



2015

Launched Equality and Diversity e-learning for employees

2007

Joined the FTSE4Good Index



2004

Created our People Forum



2018

Published our first Gender Pay Gap Report



Joined Women Ahead cross-company mentoring programme



Introduced Diversity as a measure for senior management remuneration

2019

Commenced partnership with The Women's Association



Launched Unconscious Bias e-learning

2020

Formed our EDI network



Vulnerable Customer Working Group established to increase promotion of best practice Group-wide and review trends



2021

Launched our first Green Bond

Established our Sustainability Committee, ESG and Climate Risk teams

Joined the Death Notification Service



Completed a second cycle of annual e-learning for 100% of our employees on customer vulnerability

Became a TCFD supporter



2020

Donated over £157k to various charities

The Board designated Climate Change as a principal risk within the Group's Risk Management Framework

Our commitments and focus areas going forward are discussed throughout the following sections

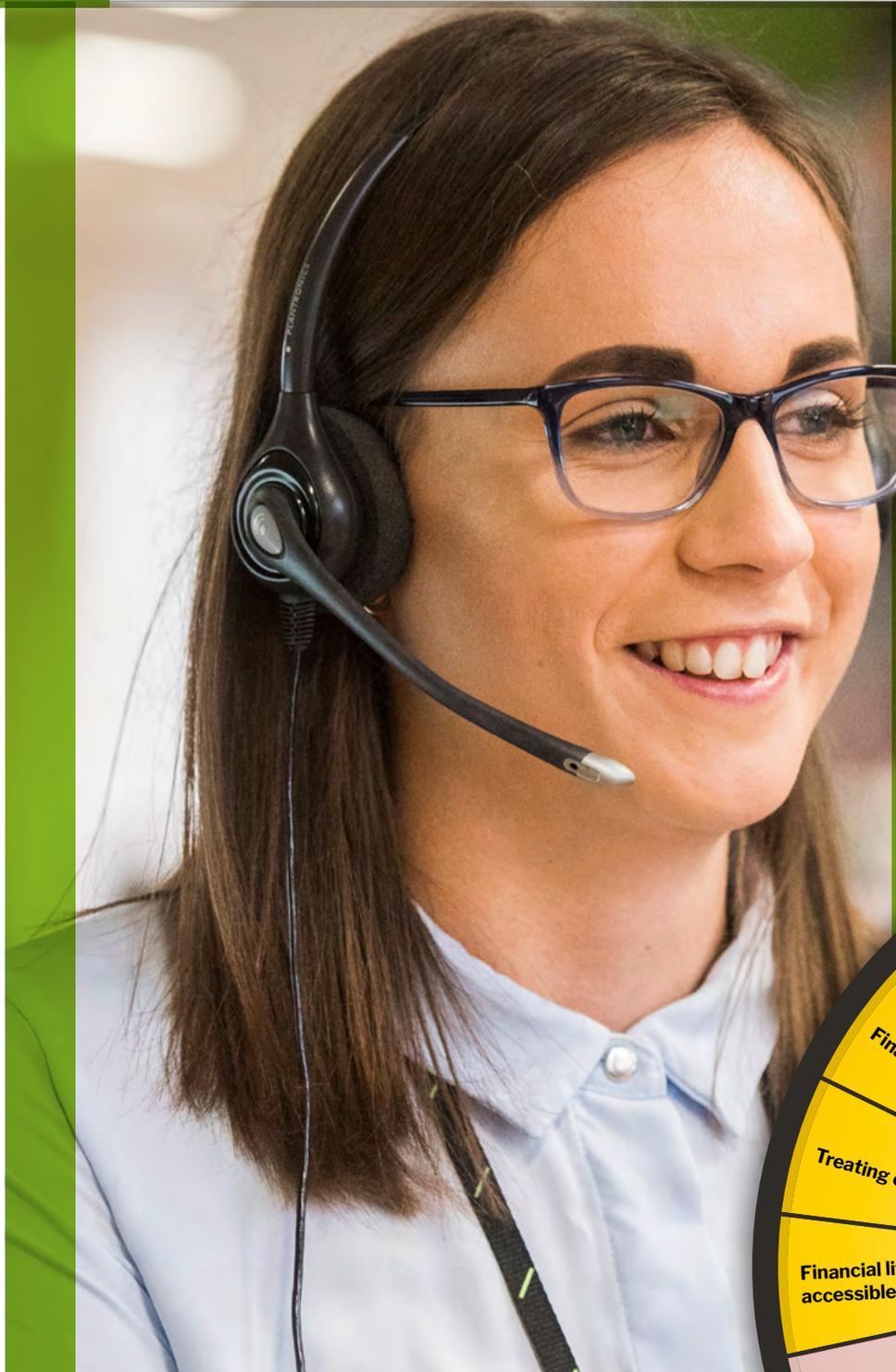
Helping our customers

Our customers are at the heart of our business and, as a specialist bank, we use our expertise to develop products and support to meet their needs and help them achieve their ambitions.

We know that at times customers may need some extra support and we are committed to helping them during these difficult times. Our people are well placed to discuss support available for anyone who needs it, and we are committed to delivering good customer outcomes and treating customers fairly across the Group.

**Easy to use and understand.
Efficient and prompt service...**

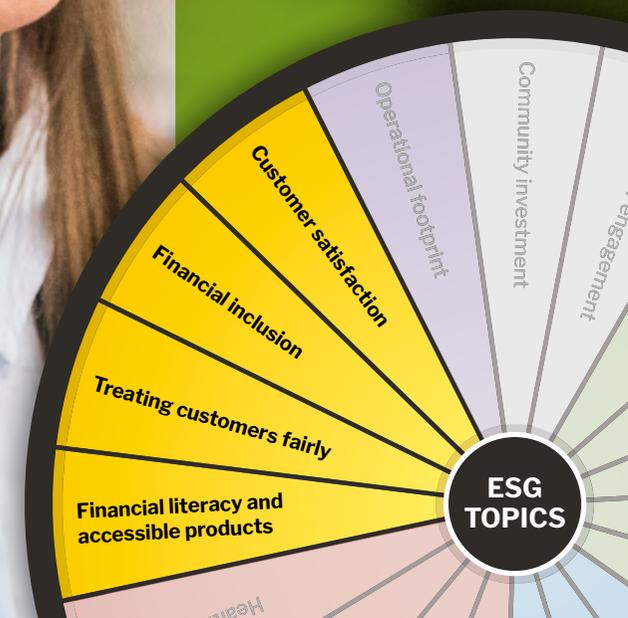
Savings customer feedback, September 2021



4.5/5 Feefo review score from savings customers

+58 overall Net Promoter Score (NPS) for savings account opening

650 million+ items of customer data analysed each month



Our customer commitment

We want every customer to feel assured that we will always consider their needs and act fairly and responsibly in their dealings with us. Our customer commitment strives to ensure that all customers are confident that:

- our products and services are designed to meet their needs
- our employees are appropriately skilled and experienced to provide the services they 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 assessed carefully, fairly and promptly
- where applicable, they will be made aware of how they can refer their complaint to the Financial Ombudsman Service (FOS)
- if they are vulnerable 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

Our customer commitment is underpinned by a wide range of conduct policies and standards, from product governance to complaints handling and distribution to servicing. These are reviewed and updated regularly to encourage high standards and continuous improvement across the Group by our employees.

Customer insight

A dedicated customer insight team enhances our customer understanding and enables us to improve our overall customer experience. Not only do we measure customer satisfaction, but we work to understand what our customers value most so that we can improve our products and services, and better understand our markets.

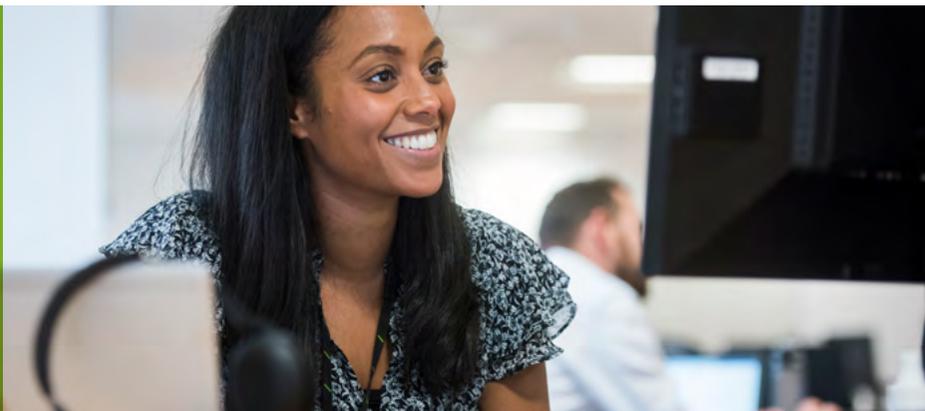
We have long-running satisfaction surveys in place for our savings and mortgage customers. Our savings and mortgage surveys also measure Net Promoter Scores which tell us how likely a customer is to recommend Paragon based on their product or service experience.

We also use research to explore the characteristics, behaviours, challenges and aspirations of our customers. Over the last 12 months, our in-depth surveys have covered a wide range of topics which have included energy performance standards, LIBOR transition and financial resilience following Covid-19.



Online application portal

In SME lending, in-depth research helped us to map out a new online application process for SME customers and intermediaries which draws on information from automated sources, keeping manual data input to a minimum.



		Satisfaction score		Net Promotor Score	
Savings		Account opening	88%	Account opening	+58
		Maturity	89%	Maturity	+52
Mortgages		91%		+43	

Examples of research surveys over the last 12 months

December 2020	January 2021	May 2021	July 2021	July 2021	August 2021	September 2021
Covid-19 - financial resilience and future plans	LIBOR transition	Covid-19 financial resilience and future plans	EPC standards for rental properties	Letting to students	Postal distribution	Knowing our customers
<i>Savings customers</i>	<i>Mortgage brokers and buy-to-let landlords</i>	<i>SME business customers</i>	<i>Mortgage customers</i>	<i>Mortgage customers</i>	<i>Savings customers</i>	<i>Mortgages, SME business and Savings customers</i>
83% of savers said their financial position was unchanged or improved as a result of the pandemic.	Detailed research to check customer understanding and engagement with the transition from LIBOR-linked products to new benchmark interest rates.	54% of business customers said their financial position was back to pre-Covid levels and 77% said they will prioritise innovation going forward.	42% of landlords said they were unaware of planned changes to energy efficiency ratings for rental properties and needed more information.	Nearly one in three (33%) landlords planned to purchase at least one property over the next 12 months to let to students.	94% of savings customers with postal accounts said they would be excluded from opening an account if we did not offer a postal option.	Comprehensive customer survey to capture customer demographics, ambitions, attitude towards Paragon and priorities for the future.

Vulnerable customers

According to FCA research, 50% of us will become a vulnerable customer at some point in our lifetime as a result of poor health, an unfortunate life event, low capability or resilience. Without the right support, vulnerable customers are at heightened risk of financial harm and we have been strengthening our capability in this area.

Whilst we have been supporting vulnerable customers for many years, in 2020, we introduced a Vulnerable Customer Working Group, sponsored by our Chief Operating Officer, and led by our Head of Operational Conduct. The working group consists of representatives from each business area, and many of our support functions, and meets regularly with the aim of promoting fair outcomes for all vulnerable customers across the Group and ensuring we meet FCA guidance on the treatment of vulnerable customers.



100%
of employees completed customer vulnerability training during 2021

Strengthening our capability



Group-wide learning

Annual e-learning for all our employees on customer vulnerability is now in place, supplemented with in-depth training for customer-facing teams and support functions. Detailed training on bereavement has also recently been added.

Vulnerability Awareness Campaign

A team of employees representing customers from across the Group meets regularly to discuss and promote awareness of vulnerability issues amongst all our colleagues.



Blind and partially sighted

We have a Group-wide capability to send documents in braille, large print and via audio files.

Death Notification Service

Paragon has joined 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.

Our actions individually and collectively make a real difference to our vulnerable customers feeling supported and ensuring they do not suffer financial harm...



Pam Rowland, Chief Operating Officer

Listening to customer feedback

We strive to design and deliver products, together with a standard of service, that prioritises customer satisfaction and exceeds their expectations. However, we don't always get things right and effective resolution of complaints is a key focus.

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

We have complaint reporting forums across the business to allow for the effective review of complaint volumes and trends, and root cause analysis to make sure we learn from the issues raised and address the causes of complaints. Effectiveness is regularly assessed through a programme of outcome testing, with a regular flow of information to the Customer and Conduct Committee, ensuring complaint visibility goes right to the top of the organisation.

Financial literacy and inclusion

We have a key role to play supporting individual and business customers in the appropriate use of products and services; making them accessible and understandable for all, supporting customers to develop their money management skills and helping the customers of tomorrow.



Savings explained

We introduced a new 'Savings explained' section on our website to highlight the key features of different types of savings account and help customers decide which one best meets their needs. [Click here for more information.](#)

LIBOR transition

Working with behavioural research specialists, we made sure customers with LIBOR-linked products were transitioned successfully onto a new interest rate benchmark.

Financial wellbeing

Supporting the financial wellbeing of our customers by assisting them in having a sense of security over their finances is a priority at Paragon. We signpost our customers to external sources of help and support for clear and impartial financial advice, including Moneyhelper, Citizens Advice and StepChange Debt Charity. As a lender, we adhere to the requirements of the Debt Respite Scheme which involves pausing creditor enforcement action, interest and charges for customers in financial difficulty and giving them a minimum of 60 days breathing space, so they can review their finances with a debt advisor. For information about employee financial wellbeing see page 15.

0.47 complaints per 1,000 accounts

3% of complaints escalated to the Financial Ombudsman Service

9,075 customers with postal accounts, supporting less digitally active customers

Our customer and industry awards



Best Internet Account Provider



Best Monthly Interest Savings Provider



Best Buy-To-Let Portfolio Mortgage Lender



Best Cash ISA Provider



ISA Provider of the Year

2022 focus areas

- Introduce system enhancements to make it easier for customer service agents to record customer vulnerability with permission and tailor support accordingly
- Gather deeper insight on the nature and scale of vulnerabilities in our customer base through MI enhancement, aligned to the four drivers of vulnerability (health, life events, resilience and capability) and how this can drive improvements in employee training and product development



Building a strong team

We employ almost 1,450 people across the UK who work together to help our customers achieve their ambitions. To build a more sustainable future, we want our team to be a diverse mix of people and skills, where everyone feels welcome and able to succeed.

We are exceptionally proud of our culture, underpinned by a strong set of company values and a commitment to doing the right thing.



Gold Investors in People accreditation and Champion status

87% employee engagement (2017: 81%)

+24 employee NPS, Industry norm +21 (2017: -3)



Recruiting and retaining the right people

We take great care in building and expanding our team. Our robust selection and recruitment process ensures we recruit people in line with our values and culture.

We expect our people to work hard to support our customers and help to grow our business. To reward them for their contribution, we offer a range of valuable benefits including profit-related pay and generous annual leave entitlements. We are continually reviewing our reward package. During 2021 we increased basic annual leave entitlement from 22 to 25 days, increasing to a maximum of 30 days, as well as giving all employees an additional day off each year for their birthday. Emerging from the pandemic, most of our teams are also moving towards hybrid working, which offers a better balance of office and home working.

We take our employee's 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 employee awards and a range of local and national discounts.

The 2021 Employee Survey included more detailed questions around our culture for the first time, focusing on risk, responsible business actions, customers and inclusion. All measures (where relevant) were above the industry norm and the overall culture score increased to 95% (2017: 89%).

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 provide a wide range of opportunities to help our employees perform well in their current role and support their future career aspirations.

All employees are encouraged to draw up a personal development plan with support from their manager which might include on-the-job training, online learning or attendance at courses and events, and in 2021 we rolled out a new e-learning platform, Learn Amp, which offers over 6,500 online resources.



20 years' service
£2,500 holiday vouchers

30 years' service
a month's sabbatical



We are an accredited employer with the Living Wage Foundation meaning our employees are all paid at least the real Living Wage.

We recognise the dedication and commitment of our people through rewards for length of service milestones from five to 35 years, which include travel vouchers and sabbaticals.

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 recent employee survey, 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.

Sharesave

We operate a Sharesave scheme and a profit-sharing scheme, both of which enable eligible employees to benefit from the performance of the business and encourage personal saving and financial security.

65% of our employees are currently involved in a Sharesave scheme.

See page 13 for details of how we support our customers' financial wellbeing.

16 years average length of service for our executive management team

4.6 average annual training days per employee in 2021 (CIPD average 2.8 - 3.2 days)

8.8 years average length of service

8.7% employee turnover in 2021 (Industry average 13.1% - XpertHR)

156 new hires in 2021

How would you describe the Paragon culture?

PROGRESSIVE
FAIR INCLUSIVE
 TEAMWORK CARING
 OPEN COLLABORATIVE
 FLEXIBLE POSITIVE
FRIENDLY
 DIVERSE TOGETHERNESS
FAMILY PROFESSIONAL
 SUPPORTIVE RESPECTFUL
 WELCOMING INTEGRITY

Managers and leaders can develop their capabilities with a range of structured programmes including:

- Our Team Leader Academy and Manager Academy, accredited by the Chartered Management Institute
- Our Senior Leadership Development Programme to support individuals who show potential to become future leaders
- Participation in the 30% Club cross-company mentoring programme which supports women's career development and from 2021 broadens its focus beyond gender to bring greater diversity to top management positions

The Senior Leadership Development Programme has been an integral part of my development and helped me progress to Head of Proposition in the Savings business. It's a fantastic opportunity to work closely with our Executive team and a reflection of real investment in the development of talent and leadership. The Executive sponsors are noticeably invested in our success and regular follow ups have ensured continued focus and long-term support for participants...



Clare Burbidge, Head of Proposition, Savings, SLDP participant

Development requires commitment and we actively encourage our employees to complete academic and professional qualifications appropriate to their current role or their career aspirations. Whether part-time or distance learning, we pay 100% of the fees (including examination fees) as well as associated costs, such as professional subscriptions, with appropriate management endorsement.

We provide a range of early career opportunities, including apprenticeships, undergraduate internships and placement opportunities. We use the Government's Apprenticeship Levy to support the programmes we run. Both our Team Leader Academy and Manager Academy are not only aligned with the Apprenticeship framework but are also accredited with the Chartered Management Institute. We have pledged 10% of our Apprenticeship Levy to help SMEs offer apprenticeships.

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, better understand our customers and build a stronger business.

We believe the diversity of our directors, managers and employees should reflect the diversity in the world around us and we want to build a more diverse organisation. During 2021 we undertook a data collection exercise in which we asked all employees to complete a diversity profile to better understand the composition of our workforce, monitor how diverse we are as an organisation and identify the steps that we need to take to make Paragon a more inclusive place to work.



The Prince's Responsible Business Network
Race at Work Charter signatory

During 2021, we signed up to Business in the Community's Race at Work Charter designed to remove the barriers that ethnic minority groups face in recruitment and progression.



We're a member of the Government's Disability Confident scheme, committed to providing inclusive and accessible recruitment and support for disabled people.

Organisations that are more diverse and more inclusive are more successful. They are better places for people to work and they foster a greater sense of engagement and belonging...



Richard Rowntree, Managing Director Mortgages and Executive Sponsor of Paragon's EDI Network



Gender diversity

Increasing female representation and leadership at higher levels of the Group is a particular area of focus. We have achieved our Hampton-Alexander target of 33% representation on our Board (37.5% as at March 2021) and in senior leadership positions (34.6% as at March 2021).

In 2016 we became a signatory of HM Treasury's Women in Finance Charter, a pledge for gender balance across the financial services sector. The Charter's objectives reflect the Group's own aspirations for gender diversity, and we published our first set of internal targets under the Charter in January 2017.

All these targets have now been achieved ahead of the January 2022 deadline and new targets will be set during the next 12 months.

Measure	Target	Sep '21	Status
Women represented in senior management*	35%	38.7%	✓
Women in workforce	50%	52.5%	✓
Women as a percentage of employees receiving management career development and leadership training	50%	52.0%	✓
Managers from an ethnic minority background	10%	13.4%**	✓
Workforce on flexible working	10%	24.0%	✓
Flexible working on a part-time basis	50%	73.6%	✓

*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. **Has been calculated based on the ethnicity data that 58% of employees self-disclosed.

We regularly review our progress and, to help us reach our targets, we have:

- reviewed recruitment and selection practices and now instruct search firms to provide improved gender diversity amongst candidates
- continued to increase our focus on providing female career development and leadership training
- continued a programme to identify female leaders and potential leaders amongst the workforce, providing those individuals with more coaching and development opportunities
- delivered training on unconscious bias
- implemented an online recruitment system to provide anonymised CVs at the first selection stage
- reviewed and implemented an increase in maternity pay provision
- established the Equality, Diversity and Inclusion Network to broaden the Group's diversity focus

52% of attendees on our development programmes in 2021 were female

57% of individuals completing professional qualifications across the Group are female



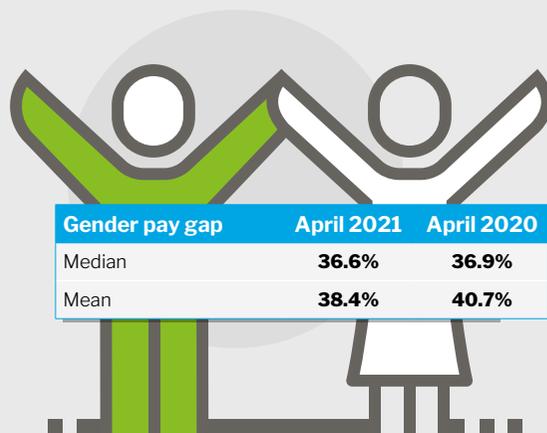
Paragon partnered with The Women's Association and participated in its latest campaign, the Executive Challenge, which seeks to inspire young girls and raise aspirations.



Paragon is part of an external mentoring programme, led by the 30% Club and delivered by Women Ahead, aimed at supporting females looking to develop their careers and increasing gender diversity at senior levels.

Gender pay gap

Our 2021 gender pay measures were similar to those for 2020 and remain larger than we would 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.



We regularly assess pay levels across the Group and are confident there is 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, People Director



Equal opportunities

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

This year the Group also launched Inclusive Workplace training courses for all employees, and all leaders and managers have been invited to Inclusive Leadership training course as part of our leadership development curriculum.

EDI Network

In 2020, we launched our Equality, Diversity and Inclusion Network designed to support all employees and champion ideas to make Paragon an even more inclusive workplace. It aims to:

- change perceptions and break down barriers
- raise awareness and understanding of EDI in the workplace
- celebrate diversity
- support the delivery of initiatives to improve equality, diversity and inclusion at Paragon

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

Clockwise from top:

We took part in the 2021 Birmingham Pride Carnival Parade to support our LGBTQ+ colleagues.

To celebrate International Women's Day 2021, female leaders from across Paragon hosted a series of drop-in sessions.

Black History Month in October saw the exhibition of art by artist Olivia Glasgow at our Head Office.



The wellbeing of our employees is one of our main priorities here at Paragon. We care about all our people and are committed to supporting their physical and mental health...



Nigel Terrington, Chief Executive

Employee wellbeing

The past two years have highlighted the importance of supporting and encouraging employee wellbeing, and we've developed a wide-ranging suite of initiatives to help employees manage all aspects of their physical, emotional, social and financial wellbeing. These include:

- an Emotional Wellbeing Support Team made up of volunteers across the Group who have been trained in mental health to offer confidential support and guidance and signpost employees to further relevant help and support
- a Wellbeing Hub on our intranet providing a wealth of information and resources to support all aspects of wellbeing
- mental health awareness training for managers and team leaders across Paragon to help them understand how to encourage good mental health within their teams, as well as identify and support employees who may need help
- regular employee wellbeing surveys to help us understand how our people are feeling and highlight where extra support is needed
- employee access to WeCare support service, a free employee benefit provided by Canada Life, providing an extensive range of virtual services including easy access to 24/7 GP consultations, mental health support and get fit programmes
- free access to the NHS-approved Thrive app which includes a range of confidential tools to support mental health
- free exercise classes at some of our larger sites and weekly fresh fruit deliveries at all our locations
- an increase in starting annual holiday allowance from 22 to 25 days, plus an extra day off for birthdays



96% agree their line manager cares about their health and wellbeing[†]

12 trained wellbeing representatives across the Group

Giving our employees a voice

We recognise the benefit of keeping employees informed of the progress of the business and foster a range of initiatives to encourage and deepen involvement.

People Forum

Employee representatives from each area of the business attend the People Forum (right). It facilitates communication and dissemination of information throughout the Group and provides a means by which our employees can be consulted and provide feedback on matters affecting them.

The People Forum is designated as the primary channel through which the Board receives information on the views of the workforce and Non-Executive Directors regularly attend People Forum meetings to discuss certain topics.



Our Board Chair, Fiona Clutterbuck, attending one of our People Forum meetings



89%

of employees believe the People Forum works effectively†



Recent feedback from the People Forum has resulted in all employees being given additional holiday on both Christmas Eve and New Year's Eve.



Employee surveys

Regular employee surveys give us the opportunity to gather employee opinion on a wide range of topics, from the effectiveness of our leaders and our approach to customers, to the success of our employee communication and development initiatives. We also run quarterly pulse surveys to help us understand how our employees are feeling and highlight where extra support is needed.

Keeping our people safe

Ensuring the wellbeing of our colleagues has been our number one priority throughout the pandemic and enabled us to maintain operational stability throughout this period.

By 31 March 2020, more than 90% of our people were working from home, supported by IT upgrades and expanded use of technology across the business. We adopted a flexible approach to working patterns and introduced policies focusing on the morale and wellbeing of employees, providing extensive communication and enhanced management. Around 10% of our employees continued to travel to work to deliver essential services to our customers which could not be carried out from home. To keep them safe, we implemented strict social distancing, together with additional measures to promote good hygiene practices.



We introduced regular employee wellbeing surveys to help us understand how our people were coping during the pandemic. These are carried out on an ongoing basis. As we started to transition back into the office, we conducted a series of hybrid working pilots, undertook thorough risk assessments and followed all government best practice guidelines to ensure we are providing a safe working environment for our people.

Since the start of the pandemic, we have featured a host of wellbeing information on our intranet and our internal wellbeing team is available to provide confidential support and advice to employees across the Group.

2022 focus areas

- Embed a hybrid working model for our people
- Use the findings from our employee diversity profiles to plan the next stage of our EDI strategy
- Investors in People reaccreditation



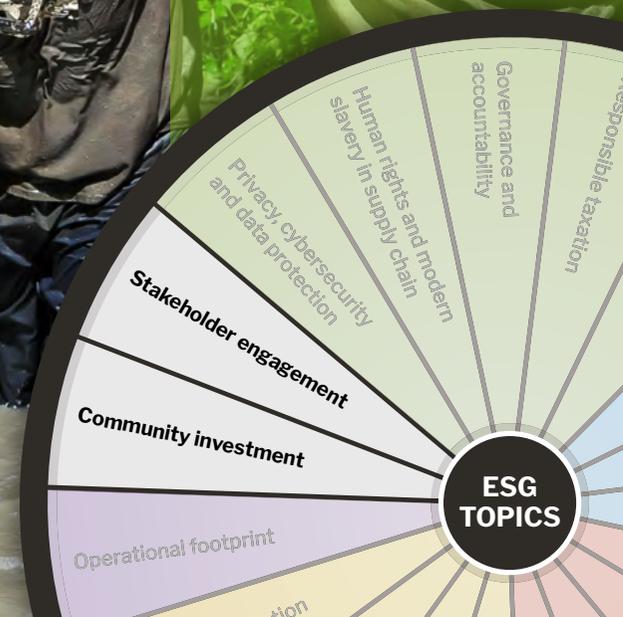
Contributing to our communities

Positively impacting society by giving back to the communities in which we live and work has always been important at Paragon. We aim to be an energetic and valuable contributor to these communities and our commitment includes active involvement in a range of community volunteering and charity partnerships.



49 days volunteering in 2021

Charitable contributions and money raised in 2021: £73,000+



Charity

We contribute to local charities throughout the year by way of single donations directly from the company. In 2021 these contributions totalled £39,600. Our main objective is to support those serving the communities in which we operate and in 2021, we helped a range of local schools, sports clubs, hospitals and hospices, The Down's Syndrome Association, British Heart Foundation, Rethink Mental Illness, Happy Days Children's Charity, Demelza Hospice Care for Children, St Basils and many others.

Alongside these charitable contributions, our dedicated people play a huge part in raising money for those in need. Each year, employees select a charity of the year and a dedicated Charity Committee made up of employee volunteers organise a variety of fundraising activities, which also bring people together and support our values and culture. In 2021, £30,000 has been raised to date for the Alzheimer's Society. In addition to this fundraising, our people in our Southampton office raised £3,300 for their local community through various fundraising activities. In 2020, our employees raised over £43,000 for Macmillan Cancer Support, despite the disruption caused to planned activities as a result of the pandemic.

During 2021, we worked with our charity of the year, Alzheimer's Society, to provide support to their Companion Callers scheme where trained volunteers regularly call vulnerable people living with dementia to check in and have a friendly chat.

I'm really enjoying the Companion Caller volunteering scheme. I've connected with a lovely lady, who has a fantastic personality and a great sense of humour. We talk about anything...



Rina Pabari, Team Leader, Customer Assurance

£100,000

In 2020, Paragon made a £100,000 donation across four different organisations to help them reach more people with their essential services during the pandemic. These were the NHS, Solihull Change into Action, Age UK and Macmillan Cancer Support.



Paragon, like many other financial services organisations, also contributes to the Foundation for Credit Counselling which operates the StepChange Debt Charity. In 2021, we made a contribution of £912,000. This year we have also made a public pledge to gift up to 10% of our apprenticeship levy funds to help smaller SMEs provide apprenticeships.

WE ARE MACMILLAN. CANCER SUPPORT

£43,000



£30,000+

StepChange Debt Charity

£912,000

Volunteering

We encourage our people to actively make a difference in our local areas. Through our community volunteer scheme, every Paragon employee is provided with a day each year to volunteer for specific initiatives.

We focus our efforts on supporting projects which are designed to:

- support disadvantaged school pupils and in doing so help them to avoid poverty
- support individuals currently experiencing poverty
- help individuals to get out of poverty and back into work

During the pandemic, Paragon employees took part in virtual volunteering in association with Business in the Community. This included taking part in a six-week programme working with unemployed individuals for whom English is a second language, supporting them in gaining employment, joining its BOOST programme, whereby employees act as coaches to young people who were struggling to find work due to the pandemic, and providing consultancy support to charities in need.

After the course it made me realise how fortunate I am with all the support I have had in my working career. To help someone who is trying to get into employment is rewarding for me. The course developed new skills for me and improved how I communicate with different kinds of people...



Khurum Akhtar, Team Leader, Collections

2022 focus areas

- **Raise in excess of £30,000 for our 2022 Charity of the Year**
- **Increase our volunteer scheme to achieve 250 volunteering days across the Group**



Minimising our footprint

We recognise the importance of reducing the impact that our own operations have on the environment. We operate in mortgage, consumer and commercial finance markets and therefore the overall environmental impact of our operations is low. However we are committed to identifying, measuring and managing how our actions affect the environment and finding ways to reduce their negative impacts.



46% reduction in emissions since 2017

84.5% of electricity from renewable sources

45% of waste diverted from landfill



Measuring progress

We operate from 14 sites across the UK, the majority of which are office locations and therefore have limited environmental impacts. Our focus is on conserving energy, reducing waste and increasing recycling throughout our business.

We are continually looking at ways to improve the environmental performance of our sites. These include 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 the past five years we have achieved a 46% reduction in CO₂e emissions from our sites. This is the result of continued efficiency improvements, and greater consideration of the significant impact sourcing decisions can have on our overall carbon footprint.

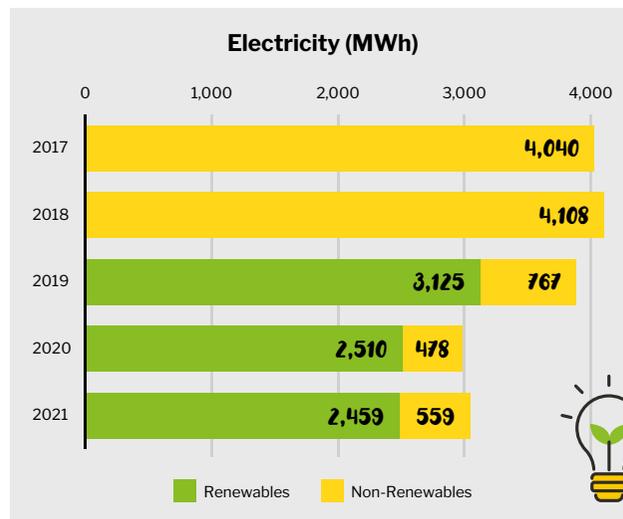
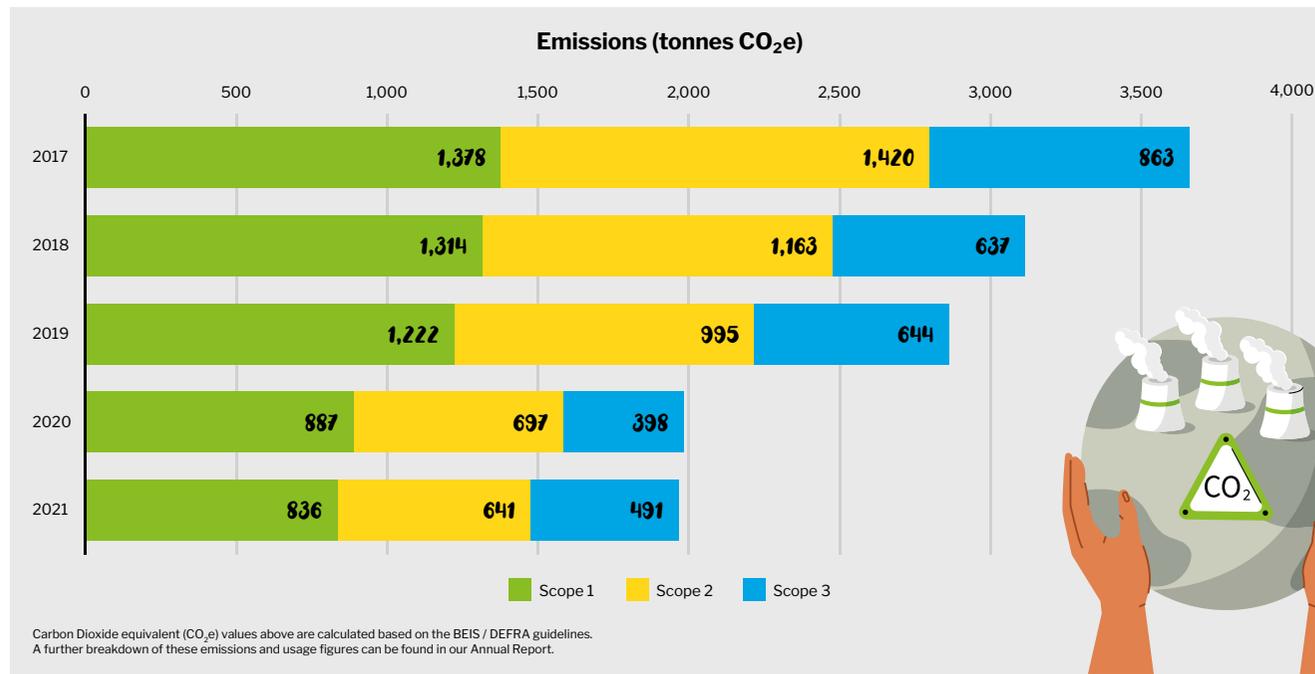
Covid-19 impact on footprint

The reduction in emissions since 2020 is principally driven by the impact of the Covid-19 pandemic and the increase in working from home. As we move towards a more flexible and hybrid model of working, the consideration of emissions generated whilst working from home will be crucial to understanding the wider carbon footprint of our operations. We are working on better understanding this area and will look to incorporate this into our reporting in due course.

Energy

Since 2019, renewable energy for all owned sites has been supplied through the grid via OFGEM accredited suppliers. The method used to evaluate emissions from electricity usage (location-based) does not consider its source, i.e., whether it is generated from renewables or from fossil fuels. Therefore, Paragon receives no benefit for this in the calculation of our CO₂e emissions from electricity usage.

In December 2021, we will undergo an independent assessment of the energy performance at two of our main sites. The recommendations from this assessment will help inform our future goals for operational decarbonisation.



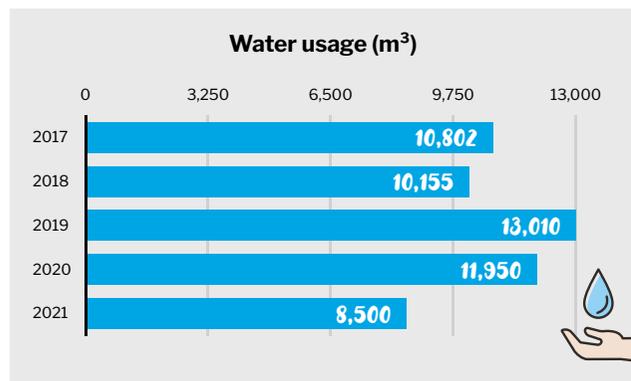
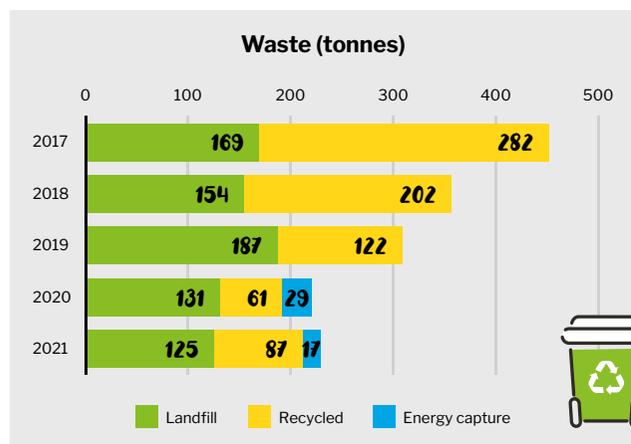
Our carbon emissions are grouped into three categories		
Scope 1	Scope 2	Scope 3
Emissions produced directly from our operations, which include emissions from our fleet of company cars and the heating and cooling of our offices	Emissions associated with our purchased electricity	Emissions generated by expensed staff travel, our water usage and waste processing



Waste

In addition to minimising our waste, we plan to increase the proportion diverted from landfills to recycling or energy production. All general waste produced at Paragon's principal sites is diverted from landfill, and disposed of through an approved waste contractor using waste to energy initiatives.

Specialist Fleet Services (SFS), which was acquired by Paragon in 2015, leases refuse vehicles to local authorities across the UK and has a significant impact on the Group's total waste. SFS follows international standards for waste and is managed under an ISO14001:2015 certified environmental management system.



100%
renewable
electricity at
owned sites



We are working with our suppliers to become more efficient in our use of resources and to reduce the environmental impacts of our business activities, whether directly or in our supply chain.

For more information about how we work with our suppliers, see page 31.

2022 focus areas

- Engage with building owners of sites we don't own to understand energy usage and reduce emissions
- Begin transitioning our company car fleet from diesel to hybrid and electric vehicles
- Install electric vehicle charging points at our owned sites
- Align to ISO14001:2015 prior to certifying the environmental management system
- Improve awareness and provide training to employees on sustainability and how they can contribute to our overarching environmental objectives
- Determine next steps for eliminating scope 1 and reducing scope 2 emissions

Lending sustainably

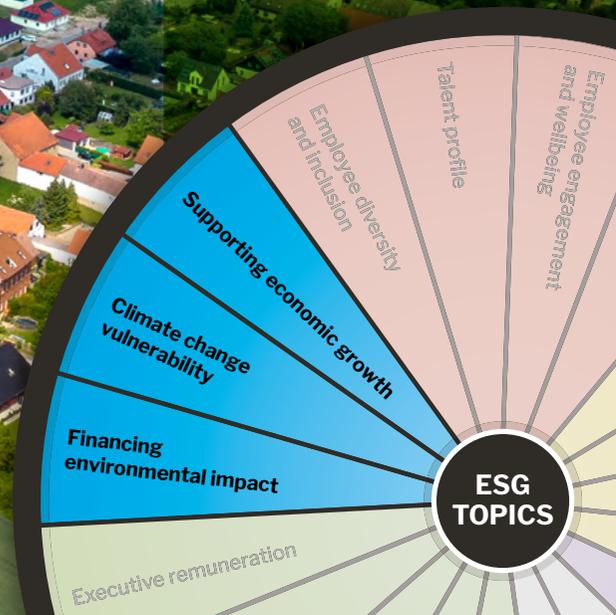
We support the UK's ambition to reduce greenhouse gas emissions to net zero by 2050 and are committed to helping generate sustainable economic growth in the transition to a low-carbon economy. We want to better understand the impact of our lending on the climate and help our customers fulfil their environmental responsibilities, driving energy efficiency in the PRS. We are also taking steps to manage climate-related financial risks associated with our lending.



£96m increase in lending to EPC A/B properties

97.5% of properties in negligible, very low or low flood risk zones

First UK bank to launch an unsubordinated green bond



Greening our book

As a diversified bank, we provide finance across multiple sectors and we believe we have a responsibility to help our customers reduce their environmental impact. Central to this is understanding the carbon emissions that are enabled through our lending and financing activities. Financing environmental impact is a highly material issue and therefore a key focus of our sustainability considerations going forward.

In 2020, the Board designated climate change as a principal risk within Paragon's Risk Management Framework meaning risks arising through climate change are considered when making decisions about the Group and its strategy.

The Chief Financial Officer has been designated as the director responsible for climate change matters. Earlier this year we established a Sustainability Committee, chaired by our Director of External Relations, to further embed sustainability considerations across Paragon as well as to provide a platform for discussion and debate on emerging environmental issues. In particular, the emissions generated throughout our value chain.

At Paragon, sustainability influences every aspect of our business. We're delighted to have received overwhelming support from the investment community on our plans to put sustainable lending at the heart of our strategy...



Richard Woodman, Chief Financial Officer

Buy-to-let mortgages

The largest contributor to our financed emissions is our buy-to-let mortgage portfolio. The primary source for energy usage in homes is heating which accounts for 14% of the UK's greenhouse gas emissions¹ and therefore decarbonisation through household efficiency measures will play a vital role in the UK's 2050 net-zero ambition. The PRS makes up 20% of the UK housing sector². Given the lack of incentives for landlords and tenants to improve the efficiency of these properties, the PRS is likely to account for a disproportionate amount of these emissions.

14% of the UK's total carbon emissions are from housing

To enable Paragon, and all lenders, to plot a clear pathway to net zero, we need to fully understand the emissions we enable through our lending; these can be considered our financed emissions.

Our buy-to-let financed emissions are calculated using the Partnership for Carbon Accounting Financials (PCAF) methodology which estimates CO₂ emissions using EPC data. These emissions are calculated for properties in England and Wales only and where matched EPC data is available (England and Wales match rate: 88% by value). There are limitations to this, but we remain committed to following good market practise and 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).

Financed emissions: Buy-to-let mortgages

Balance £m (properties with matched EPC)	9,775.2
Financed emissions (tonnesCO ₂ /year)	148,607
Economic intensity (KgCO ₂ /£1m/year)	13,419
Physical intensity (KgCO ₂ /m ² /year)	47.24

20% of the UK's housing market stock is in the Private Rented Sector

Climate risk

We categorise the financial risks of climate change associated with lending into two categories - physical risks and transitional risks. As a prudent lender, we already consider these types of issues in our underwriting and credit risk processes.

During 2021, we have made substantial progress in assessing the potential financial impact of climate change on our buy-to-let mortgage book.

Physical risk

Physical risks refer to climate change and other environmental factors which may, of themselves, increase financial risks. This has been initially focused on the risk posed by flooding. Our analysis (below), which used postcode data, indicated that only a small proportion of properties on our loan book was located within medium or high-risk zones.

Our quantitative analysis is based on exposure to flooding from rivers and seas only. In the underwriting process, flood risk from other sources is also considered. Work is ongoing to incorporate these additional risks into the Group's risk metrics whilst increasing the coverage of the data available.

Flood risk level	Properties		Balance £m		% properties (% balance)	
	2020	2021	2020	2021	2020	2021
Negligible	57,039	59,629	9,329.1	10,025.7	91.1% (91.1%)	91.0% (90.9%)
Very low	1,503	1,520	367.0	387.2	2.4% (3.6%)	2.3% (3.5%)
Low	2,659	2,759	347.4	371.0	4.2% (3.4%)	4.2% (3.4%)
Medium	1,126	1,184	160.5	171.6	1.8% (1.6%)	1.8% (1.6%)
High	261	435	40.3	72.2	0.4% (0.4%)	0.7% (0.7%)
Total	62,588	65,527	10,244.4	1,027.6	100.0%	100.0%

Risk of flood from rivers and seas at postcode level in England and Wales only. Flood risk data for 2020 and 2021 has 99% and 100% data coverage respectively. Data does not include flood risk from surface water. The risk assessment is not at property level, as such it is likely to be an overstatement of the flooding risk.

¹CCC (2019) [UK Housing: Fit for the future?](#) ²BEIS (2021) [Improving the energy performance of privately rented homes in England and Wales](#)

Transitional risk

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. Transition risk can materialise through regulatory or government pressures to reduce the environmental impact of product chains, impacting the ability to realise security on an asset of continue business lines. The initial focus in the assessment of transitional risk has been on the energy efficiency of mortgaged properties, measured by their EPC ratings. The UK Government has announced initiatives to improve energy efficiency and it is likely that policies based on EPC ratings will be used to help the UK's transition and reduce its property stock emissions, with a potentially adverse impact on the valuation of properties not meeting required standards.

EPC split of our buy-to-let lending book								
EPC	Properties		Balance £m		% properties		% balance	
	2020	2021	2020	2021	2020	2021	2020	2021
A	25	28	6.2	6.8	0.0%	0.0%	0.1%	0.1%
B	3,422	3,849	693.0	788.3	6.2%	6.6%	7.7%	8.1%
C	15,824	16,794	2,635.6	2,878.7	28.7%	28.9%	29.2%	29.4%
D	25,466	26,766	4,072.5	4,393.7	46.2%	46.1%	45.1%	44.9%
E	9,272	9,616	1,461.3	1,546.6	16.8%	16.6%	16.2%	15.8%
F	851	816	130.6	127.4	1.5%	1.4%	1.4%	1.3%
G	219	217	33.1	33.6	0.4%	0.4%	0.4%	0.3%
Total	55,079	58,086	9,032.3	9,775.2	100.0%	100.0%	100.0%	100.0%

EPC data for England and Wales only, 88% match rate by book value. EPC data obtained internally using matching algorithms to the EPC Register bulk dataset and web service alongside manual data logging. 2020 figures are the restated position based on the EPC data now held following a more accurate refinement of the matching algorithms prior to 2H21. All EPC data is provided on a 'best endeavours' basis and further refinement is expected over the coming months as third-party suppliers are engaged. Data includes expired EPCs where a subsequent valid EPC has yet to be obtained.

Current regulation states that all privately rented properties need to be an EPC E or above. The Government has committed to upgrade as many homes as possible in the Private Rented Sector and has proposed that new tenancies should have a minimum EPC of C by 2025, extending to all tenancies by 2028³. Whilst we fully support the requirement to improve the energy performance of the UK's housing stock, we believe policy needs to reflect the time and cost required for landlords to upgrade property, as well as the damage that could be caused to rental supply if implementation is rushed or poorly executed.

Regardless of the policy response, we will need to improve the average energy efficiency of the properties on which we lend. Initiatives to achieve this are already underway, such as our range of green mortgages funded in part by our green bond, but more needs to be done and we will continue to explore opportunities in this area going into 2022.

Green bond

In 2021, we launched a first-of-its-kind UK subordinated green bond, raising £150 million of green capital for allocation to buy-to-let mortgages with strong green credentials, specifically properties with an EPC rating of A or B. The bond supports our goal of offering more attractive lending products to those who are truly dedicated to sustainability, incentivising the uptake of efficiency measures by other potential customers.

³BEIS (2021) [Improving the energy performance of privately rented homes in England and Wales](#)

If landlords are to improve the energy efficiency of PRS stock, they need the finance to enable them to do so. Making sure there are attractive options to add new stock, whilst recognising the efforts to upgrade existing properties, is an important element of this...



Richard Rowntree, Managing Director, Mortgages

Green mortgages

In 2021, we launched a range of green mortgages and further advance products. As well as responding to demand for green lending products, the aim of these products is to incentivise landlords looking to expand their portfolios to buy more efficient properties.

- Initially, we introduced green mortgages for properties with an EPC rating of C or higher, offering up to 80% LTV. Since then, we have expanded our green mortgage range to provide a green alternative to every product
- The number of rental properties with an EPC of C or above has increased by 272% over the past decade to 1.8 million. However, six out of 10 homes in the sector remain D or below, highlighting the amount of work still to be done



Other business areas

Alongside buy-to-let, it is important for us to also understand the environmental impact of our other lending areas. The collection and management of environmental data in these sectors is in its infancy and we are working to further our own measurement and management of their impacts.

SME lending

In our SME lending business, we provide finance in a range of sectors. Our lending to SME limited company customers has been broadly analysed to identify those operating in high carbon intensive industries and this totals only 6.89%.

Sector exposure	2021	2020
Water, sewerage and waste	4.53%	3.54%
Extractive industries	2.35%	1.75%
Power generation	0.01%	0.01%
Total	6.89%	5.30%

A key barrier to product development in SME lending is understanding the green financing needs of customers. During 2021, we reached out to our customers to establish their appetite for more sustainable equipment, machinery and vehicles. 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.

Established in 1992 and acquired by Paragon Banking Group in 2015, Specialist Fleet Services Ltd (SFS) provide contract hire and fleet management services.

SFS provided Hambleton District Council with new, part-electric vehicles for its refuse and recycling collection fleet. The new vehicles form part of the council's efforts to reduce carbon emissions and are fitted with electric bin lifts, which use less diesel than hydraulic lifts. They are also quieter, which reduces noise pollution.

[Read more here.](#)



Development finance

The UK Government's Heat and Buildings Strategy, published in October 2021, highlights the need for new buildings to be future-proof as installing energy efficiency measures during construction is far simpler and cheaper than retrofitting them at a later date. In recognition of this, during November 2021 we launched a Green Homes initiative to support 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.

We are in the process of enhancing our data streams in this area to further our understanding of the wider environmental and social impacts of these developments.

Motor finance

The transition to net zero motor emissions is a seismic change for manufacturers, retailers and lenders and will dominate the agenda for stakeholders over the next decade.

We recently expanded our credit policy to include lending on battery electric vehicles. Entering this market is a key strategic development, complementing our wider environmental sustainability agenda and will enable the business to begin to gain valuable experience of this market.



2022 focus areas

- **Further embed climate change risk management across the business**
- **Develop our understanding of the climate change impact of all our lending through enhanced data collection and scenario analysis**
- **Continue engagement with external climate change initiatives including involvement in industry initiatives, particularly through the Green Finance Institute and UK Finance's Sustainability Committee**
- **Develop formal climate-related risk appetites and a full suite of Key Risk Indicators and Key Performance Indicators**
- **Continue enhancement of our climate-related financial disclosures. As an official TCFD supporter, Paragon is committed to reporting in accordance with its recommendations**

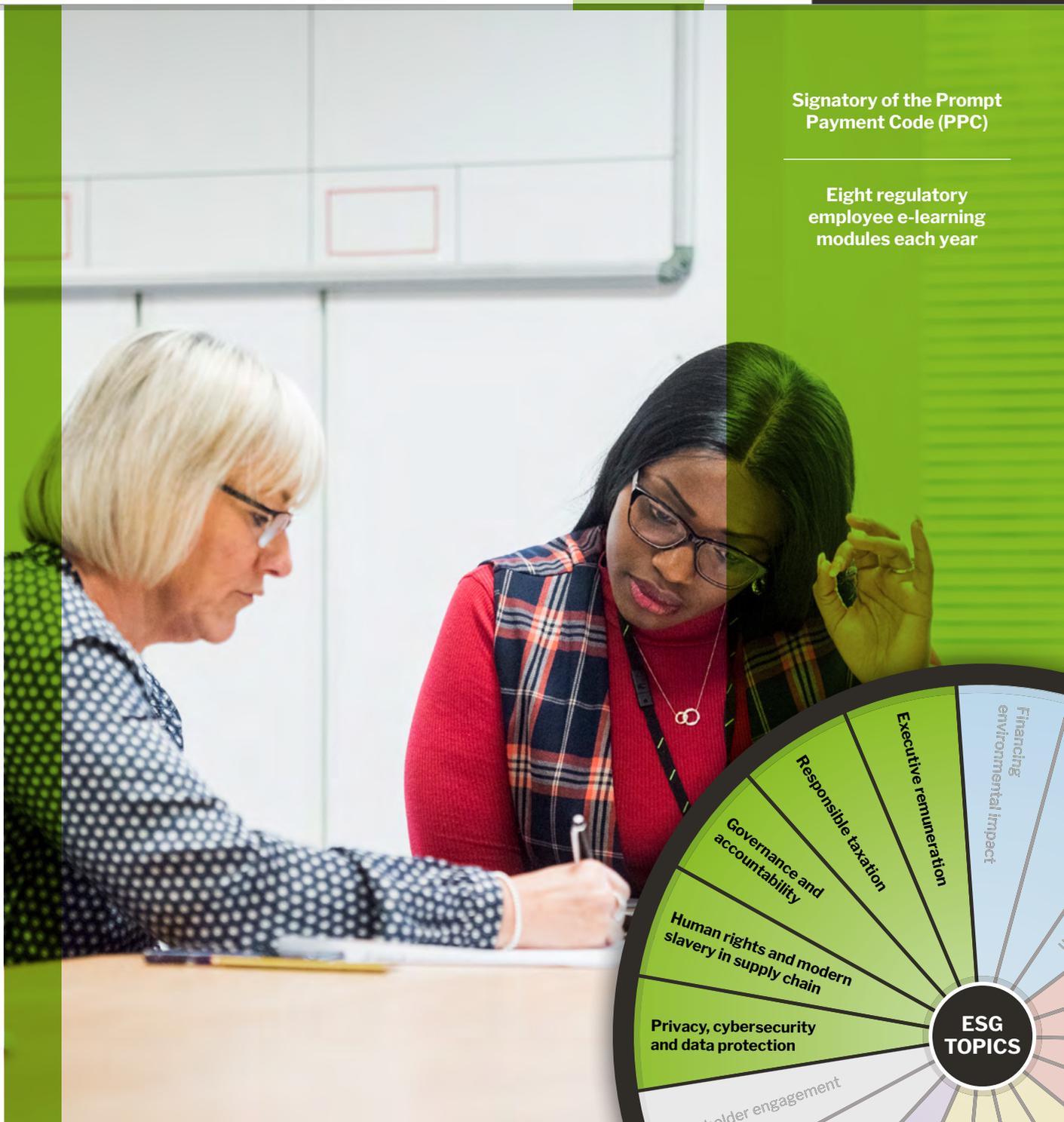


Doing business responsibly

Being a responsible business and doing the right thing for our stakeholders is engrained in how we do business at Paragon. We actively promote good practice on a range of important issues and expect the same from our suppliers and other business partners.

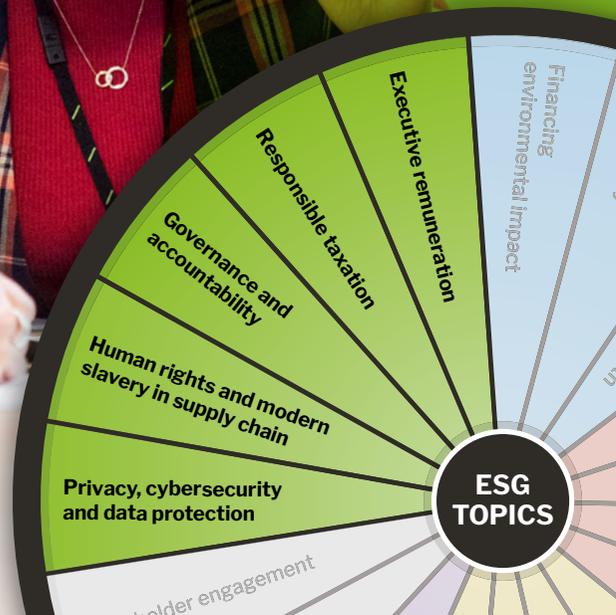
We work hard to ensure we always do business the right way. This requires honest and proper conduct by our people, strong and fair relationships with our stakeholders and a robust corporate governance structure. Our eight values underpin how we operate, what we stand for and how we work together to achieve our goals.

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



Signatory of the Prompt Payment Code (PPC)

Eight regulatory employee e-learning modules each year



Board accountability

The Board is responsible for our strong and transparent governance which allows us to achieve our objectives, drive improvement and ensure that all our stakeholders and the wider community have a fair, balanced and understandable assessment of the way we do business. Our overall purpose, values, culture and strategy are promoted by the Board and are weaved throughout our governance structure. Our corporate governance framework is described in detail in Section B of our Annual Report.

Resilience and business continuity

Our resilience and business continuity framework is 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.

Data protection

We know the protection of customers' data is a growing 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. There are a number of supporting policy standard documents visible to all employees across the Group which must be adhered to.

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.

Taxation

All of 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.

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.

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. In line with our values, 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.

Learning together

Working in the banking environment means our employees need to understand the different rules and regulations we must adhere to in order to support our customers properly and operate fairly. To help with this, all employees take part in structured learning throughout the year on topics ranging from vulnerable customers, data privacy and information security to money laundering and operational resilience.



Health and safety

We take the health and safety of our employees very 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.



Whistleblowing

We want all 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 as well as enhance positive impacts through our policies and procedures and, in particular, 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 that 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

Our remuneration structures have for a number of years, through our long-term incentive plan awards for senior managers, included risk, governance, customer and people metrics. In addition to this, ensuring good customer outcomes and support for our customers form clear and regular strands in the annual bonus targets for both the CEO and CFO with the CFO having 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. In order to mitigate this, our credit policy prohibits lending to the following sectors:

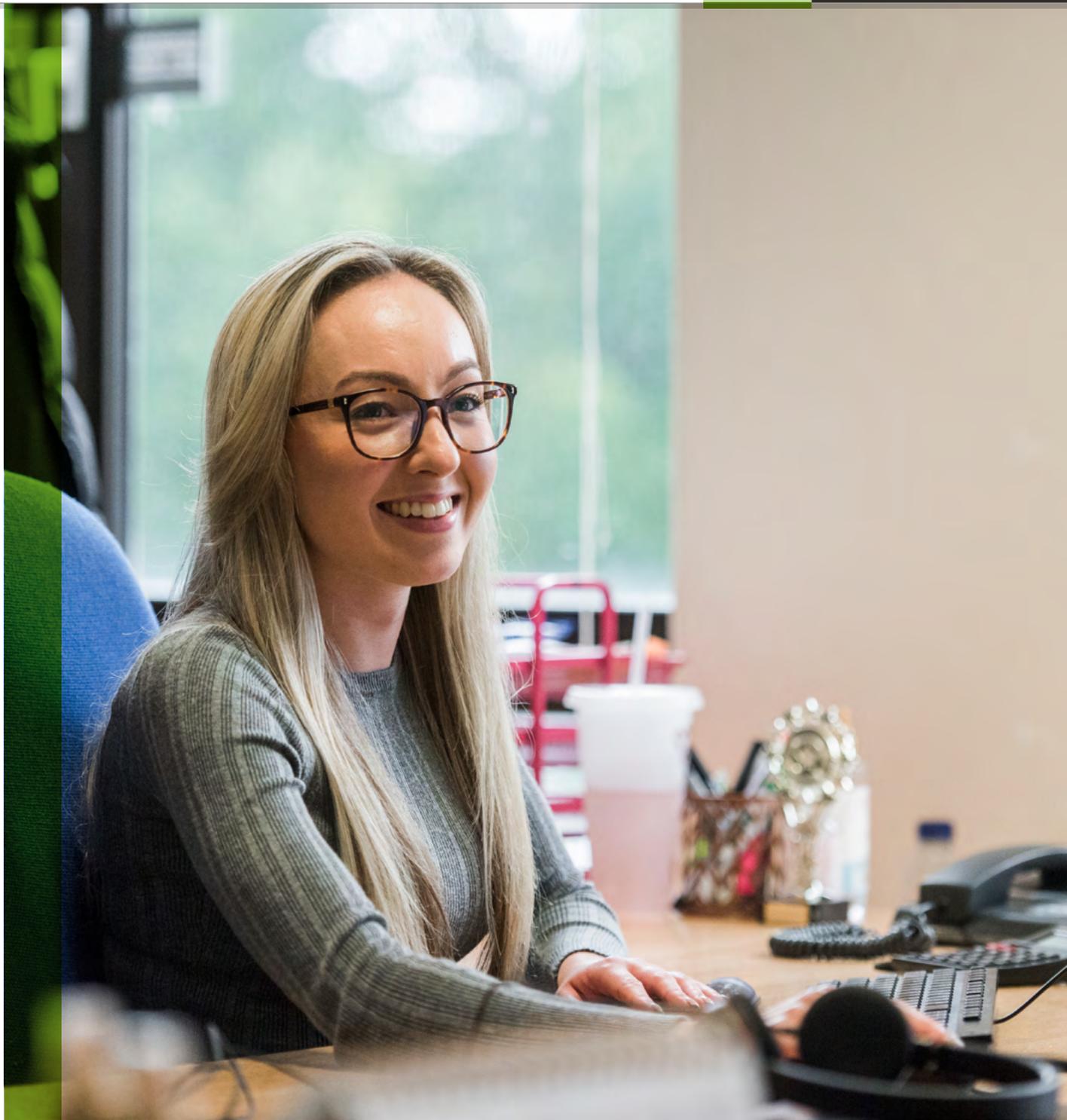
- Public houses and bars
- Licensed clubs
- Gambling and betting activities
- Activities of political organisations
- Manufacture of weapons and ammunition

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

2022 focus areas

- **Undertake a supplier satisfaction survey to further improve our key supplier relationships**
- **Launch of role specific anti-money laundering and financial crime employee training**
- **Roll out of Enterprise Risk Management Framework (ERMF) and strengthening of risk culture across the Group**

Further information



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Glossary

BEIS	Department for Business, Energy & Industrial Strategy	LTIP	Long-term incentive plan
CCC	Climate Change Committee	MI	Management information
CO₂e	Carbon dioxide equivalent	MWh	Megawatt hours
DEFRA	Department for Environment, Food & Rural Affairs	NPS	Net Promoter Score
EDI	Equality, Diversity and Inclusion	OFGEM	Office of Gas and Electricity Markets
EPC	Energy Performance Certificate	PCAF	Partnership for Carbon Accounting Financials
ERMf	Enterprise Risk Management Framework	PPC	Prompt Payment Code
ESG	Environmental, Social and Governance	PRS	Private Rented Sector
FCA	Financial Conduct Authority	SASB	Sustainability Accounting Standards Board
FSCS	Financial Services Compensation Scheme	SFS	Specialist Fleet Services Limited
FTSE	Financial Times Stock Exchange	SLDP	Senior Leadership Development Programme
GHG	Greenhouse Gases	SMES	Small and Medium-sized Enterprises (<250 employees and <£25.9m annual turnover)
HVAC	Heating Ventilation and Air Conditioning	TCFD	Task Force for Climate-related Financial Disclosure
IIP	Investors in People	The Group	Paragon Banking Group PLC and all of its subsidiary undertakings
ISA	Individual Savings Account	TWA	The Women's Association
ISO	International Standards Organisation	WEF IBC	World Economic Forum International Business Council
LGBTQ+	Lesbian, Gay, Bisexual, Transgender, Queer +		
LIBOR	London Interbank Offered Rate		



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

Contact us: esg@paragonbank.co.uk

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