



2024

Responsible Business Report

Doing the right things



Contents

Welcome to our 2024 Responsible Business Report, which summarises the progress we've made on the most important sustainability issues for our business and stakeholders.

It includes our key sustainability disclosures and outlines how we achieve our purpose through the lens of being a responsible business and doing the right things. It applies to the period 1 October 2023 to 30 September 2024.

Our financial disclosures and further details around our broader business performance are included in our Annual Report and Accounts, which will be published in January 2025 and includes our Task Force on Climate-Related Financial Disclosures (TCFD) aligned disclosures.



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Being a responsible business

Our purpose

Our purpose is to support the ambitions of the people and businesses of the UK by delivering specialist financial services. "

Our purpose provides the foundation for everything we do and, together with our strategy and values, it guides how we engage with our customers, colleagues and all stakeholders.

We live our purpose every day and sustainability runs through our activities. It underpins our focus on the evolving issues impacting our stakeholders, many of whom, like us, are focused on the transition to net zero.

As well as helping our customers, our purpose relates to our own people and the communities around us, and we aim to help them achieve their ambitions too.

We recognise our responsibilities towards the environment and humanity, and we use our influence and resources wisely. This means making choices today that will positively impact the planet and society tomorrow, and contribute to a world in which we can all thrive.



Responsible business is key

Deborah Bateman is our Sustainability Committee Chair and External Relations Director



As Chair of Paragon's Sustainability Committee, I'm proud to introduce our 2024 Responsible Business Report. It highlights the progress we've made over the last year and outlines our approach for the future, including how we're setting out a pathway to support the net zero transition.

That pathway (page 13), with its climate-related focus, is part of our broader sustainability strategy, which recognises our responsibilities towards both the environment and society. We're dedicated to refining our strategy to keep up with an ever-changing landscape, and to ensure we're always aligned with the values of our stakeholders, while still building a strong and resilient business.

As you'll see throughout this report, we've made real progress in key areas across our strategy:

- Lending against the most energy efficient properties remains healthy, while our Green Homes Initiative continues to be popular with environmentally-focused developers
- In terms of our own operations, we've made great progress and are on track to be operationally net-zero by 2030
- We actively contribute to the communities in which we live and work. This year, our people stepped up to raise a record amount of money for our Charity of the Year, Molly Ollys, alongside impressive volunteering activities



Our sustainability strategy

Environmental

Reducing our own emissions

We are committed to reducing the impact our operations have on the environment

Financing a greener world

Delivering sustainable lending through products to help our customers achieve their goals

Social

Making a difference

Positively impacting our customers, people and communities

Governance

Being a responsible business

Achieving the highest standards of business integrity and professionalism



This report demonstrates there doesn't have to be a binary choice between being a strong, resilient and successful business, and doing the right things. "

Our approach aligns our sustainability strategy with our wider business strategy, purpose and values.

Sustainability is one of Paragon's five strategic objectives and our commitment to doing the right thing is integral to our long-term strategy and purpose. It was reassuring that our materiality assessment (page 12) confirmed our stakeholders continue to share our view. Our focus remains on supporting customers on their own sustainability journeys, and bringing our people along with us, these being the most materially important things we can do to make the biggest difference.

I often hear about how it important it is to manage ESG risks. I don't dispute that but our view is that this challenge also brings opportunities to create long-term value and resilience, and to deliver real-world impacts.

Make no mistake, we all continue to live in challenging times, but by being transparent, open and ambitious about the direction we're taking, we will continue to drive positive change for all our stakeholders and are optimistic about the future.





Sustainability in conversation

Robert East (Chair) and Nigel Terrington (Chief Executive) discuss our latest sustainability issues



Where is Paragon's sustainability focus?

Robert: Our sustainability strategy (page 8) is clear – reducing our emissions, financing a greener world through our products and making a difference to our customers, people and communities – all underpinned by strong governance. What makes us different is our culture of doing the right things. Responding to climate change remains the single biggest global challenge for everyone, so we are supporting our people and customers to focus on delivering positive impacts.

How is Paragon addressing sustainability issues important to stakeholders?

Nigel: Over many years, sustainability has been strategically important at Paragon. This year, we carried out a materiality assessment, consulting with a number of stakeholders to identify the sustainability topics they consider to be priorities, as well as those they believe are most material to Paragon. Both Robert and I were involved in the process, together with colleagues, customers, trade bodies, analysts and investors. The results (page 12) confirmed that topics previously prioritised remain important. Working through this rigorous process

was the right thing to do – helping us to update our view of the sustainability landscape and confirming our plans are in good shape.

What sustainability challenges does Paragon face?

Nigel: Strong government direction for climate change is critically important and this has been missing for a number of years causing frustration across the financial services sector and, as a consequence, reduced investment. We have been vocal in calling for better direction, to help us all deliver the changes needed to meet collective environmental targets. While we welcome some of the early announcements and indications by the new government, there's still a long way to go and we need a pragmatic and realistic plan for the UK.

How will Paragon tackle these challenges?

Nigel: There are three ways. First, use our expertise to help inform and influence policy decisions, especially around the private rented sector. Second, keep collaborating with industry initiatives and peers to be innovative around solutions.

Third, keep sustainability embedded as a strategic priority at Paragon, making sure it's a consideration in every business decision we make.

Robert: This year, Nigel and his team have set out a pathway to supporting the UK's 2050 net zero ambition (pages 13–29). It is an important step for us and sets out the journey we plan to take, with specific ambitions around our operational impact and financed emissions, the latter including a 35% reduction in our mortgage portfolio emissions. It demonstrates our commitment and how we're playing our part by being transparent and setting a direction of travel with stretching aspirations. However, political leaders and policymakers must play their part in turn and set out a long-term national strategic plan which gives certainty for investments to be made.

How does the Board support Paragon's sustainability agenda?

Nigel: This year, Deborah Bateman and Andrew Smithson, our Sustainability Committee Chair and Deputy Chair, have worked closely with our Board members, to ensure they understand how we're delivering against our strategy. This included details of independent reviews and benchmarking our sustainability approach resulting in recommendations, investment levels, industry collaboration and ongoing strategy development.

Robert: Every Board member at Paragon recognises the importance of sustainability. We're committed to providing that ongoing leadership, strategic direction and, as evidenced by the results of the materiality assessment, understanding and meeting our sustainability obligations to shareholders and stakeholders. This year, Graeme Yorston, Tanvi Davda and Zoe Howorth have been particularly involved with supporting Paragon's sustainability agenda, ranging from dedicated Consumer Duty oversight to climate-linked remuneration and cross-sector knowledge sharing.



ABOUT PARAGON





Who we are



We are a specialist bank, serving customers in markets typically underserved by large high street banks.



We offer a range of savings products and provide finance for landlords, small businesses and property developers in the UK.



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



Listed on the London Stock Exchange, we are a FTSE 250 company, headquartered in Solihull and employing over 1,400 people across the UK.

Our business

Mortgages

We offer mortgage finance for landlords operating in the UK's Private Rented Sector (PRS).

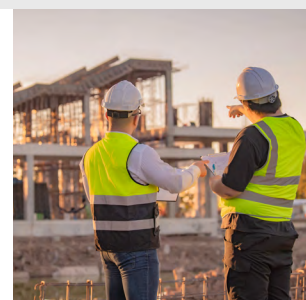
- **£13.42 billion loan assets**
- **47,950+ landlord customers**



Commercial Lending

We provide finance to SMEs operating in a wide range of sectors, helping UK businesses develop and, in turn, supporting the UK economy.

- **£2.29 billion loan assets**
- **43,000+ business customers**



Savings

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

- **307,500+ direct savings customers**
- **36%+ increase in value of new ISA accounts**
- **£16.3 billion total deposits**





Paragon focuses on specialist markets, delivering long-term sustainable growth and shareholder returns through a robust and low risk business model.

This 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 focus on five clear priorities, supported by three strategic pillars and a powerful set of values, all of which guide everything we do. You can find out more about our strategy [here](#).



Strategic priorities



Growth



Diversification



Digitalisation



**Capital
management**



Sustainability

Strategic pillars

**A customer-focused
culture**

**A dedicated
team**

**Strong financial
foundations**

Our values



Fairness

To work together to ensure good 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 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

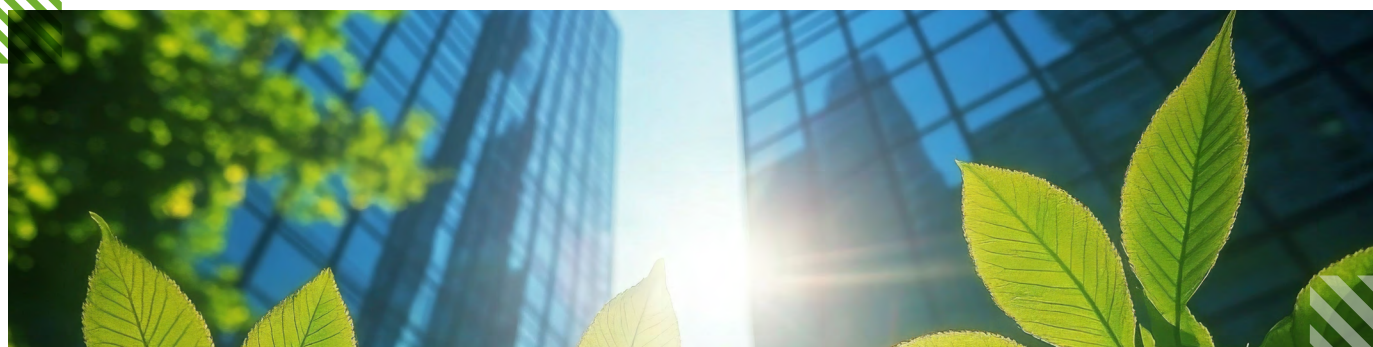


Our sustainability strategy

We are committed to doing the right things – for our customers, our people, our shareholders and the communities in which we operate – while continuing to build a resilient, strong and successful business.

Reflecting that, our sustainability strategy focuses on taking action in the areas where we believe we can make a positive difference.

Environmental		Social	Governance
Reducing our own emissions	Financing a greener world	Making a difference	Being a responsible business
We are committed to reducing the impact our operations have on the environment	Delivering sustainable lending through products to help our customers achieve their goals	Positively impacting our customers, people and communities	Achieving the highest standards of business integrity and professionalism
- Decarbonise our operational footprint - Electrify our company car fleet	- Improve the energy efficiency of our mortgage portfolio - Reduce the emissions from our motor finance portfolio by financing lower carbon battery electric vehicles - Support and fund the construction of more energy efficient housing - Support and increase our funding of more energy efficient assets for our SME customers - Develop a better understanding of the emissions associated with our financing activities	- Increase female representation across our senior leadership team - Achieve our senior management ethnicity target - Continue to support employees to fundraise for our charity of the year and support local good causes through charitable donations - Support our communities through initiatives such as employee volunteering - Continue to provide our people with opportunities for varied and rewarding careers, allowing them to meet their own ambitions whilst delivering on the strategic objectives of the business - Work to improve and better understand customer satisfaction levels and continue our focused commitment of delivering good customer outcomes	- Uphold highest governance standards with appropriate oversight at Board level - Maintain robust security, cyber and data privacy controls to protect our customers and provide confidence that they can bank safely with us - Continue to embed sustainability considerations within our remuneration approach - Maintain or improve scores from key ESG rating agencies, compared to our industry benchmark - Support the wider consideration of sustainability and climate risk across the Group



Our 2024 highlights

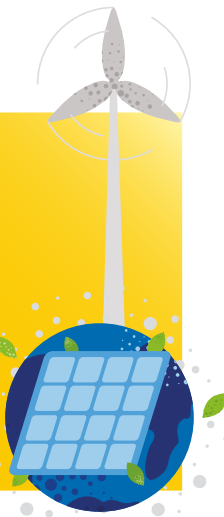


48%

reduction in market-based emissions compared to the 2019 baseline

95%

of electricity from renewable sources



70%

of waste diverted from landfill



53.4%

of new mortgage lending was to EPC A-C properties supported by our range of mortgage products



Launched our refurb-to-let proposition to landlords



★ Trustpilot



4.7/5

Trustpilot score

Increased funding available to our property developer customers through the Green Homes Initiative to



£300m



Appointed a team of 'Green Champions' to provide specialist sustainability support for SME customers

460 days

of volunteering for good causes



£48k+

raised by our employees for Molly Ollys, our charity of the year

CELEBRATING  10 YEARS
Molly Ollys





Progressing our responsible business agenda

In our 2023 Responsible Business Report, we set out our areas of focus where we believed we could make a significant and positive difference in terms of sustainability.

Here we summarise the progress we've made, with further details given throughout the report.

	Focus area	Progress to date
Reducing our operational impact	Reduce our operational footprint emissions to be net zero by 2030	Our commitment to be operationally net zero by 2030 stands firm and we have achieved a 48% reduction in market-based emissions compared to our 2019 baseline. Our transition plan outlines our emissions reduction strategy and includes a roadmap of actions to support this ambition to reach net zero across Scopes 1 and 2. See page 15 for further details.
	Operate an all-electric vehicle company car fleet by 2031	We have made significant progress in the electrification of our fleet with 22% of our employee company cars being fully electric and 72% being plug-in hybrids.
	In 2024, commence a project to further decarbonise our Solihull offices to deliver net zero by 2030	After improving our EPC rating to 'C', we commenced our project to decarbonise our Solihull offices. This included investments in energy efficiency upgrades at our Head Office, including intelligent wi-fi, movement-sensitive outdoor lighting and decommissioning cooling units in many of our server rooms. We also combined our secondary Solihull office with our Head Office, delivering emissions and energy savings. See page 19 for further details.
Financing a greener world	60% of new business mortgage lending rated EPC A-C by 2028	We are making good progress towards this ambition, with 53.4% of our new mortgage lending during 2024 rated EPC A-C.
	50% of mortgage portfolio rated EPC A-C by 2030	We are on track to achieve this ambition, with 45.4% of our current mortgage portfolio rated EPC A-C.
	£50m of cumulative lending on electric vehicles by 2028	We are on track to achieve this ambition, with £23m of cumulative new EV lending on electric vehicles to date.
	Allocate £400m of funding towards the Green Homes Initiative by 2028	Again, we are on track to achieve this ambition, having allocated £203m of Green Homes Initiative funding to date.
	Utilise the PCAF (Partnership for Carbon Accounting Financials) framework to establish and publish a complete financed emissions balance sheet by 2025	The emissions associated with mortgages and motor vehicle assets are reported covering 85% of the relevant balance sheet. Throughout the year a comprehensive review of our financed emissions reporting framework and its alignment to PCAF reporting guidance was completed by a third party.
Making a difference (our customers)	Continue our focused commitment of delivering good customer outcomes, and successful implementation of Phase Two of Consumer Duty by July 2024	The introduction and implementation of Consumer Duty was well-planned and has been comprehensive with highlights including innovations around customer understanding. See page 32 for further details. Our commitment to delivering good customer outcomes is deeply embedded across Paragon, reinforced by our ongoing, internal Think Customer! campaign.
	Implement flexible, cloud-based and digital-first technologies to continue to allow customers to self-serve	94% of our critical infrastructure is now cloud-based, while we have digital-first technology in place for all material businesses. Outstanding implementations will be completed by the end of 2027.



	Focus area	Progress to date
Making a difference (our customers)	Utilise API (application programming interfaces) and open banking technologies to improve customer journeys	16 interfaces are now live and we are continuing to invest in and build our approach to API.
Making a difference (our people)	40% female representation at senior leadership by 31 December 2025	A year ahead of this target date, we have 37.9% female representation at senior leadership level*, with a strategy in place to achieve 40% by the end of 2025.
	Commitment to a senior management ethnicity target by 2027 as part of the Parker Review	We have committed to a 5% senior management ethnicity target by 2027.
	Maintain Gold membership of the 5% Club by increasing the number of people in 'earn-and-learn' positions year-on-year	2024 saw many apprentices complete their qualifications and move into permanent roles in the Group. Currently 14% of our workforce are in 'earn-and-learn' positions and we expect this to rise to meet our 2027 target.
Making a difference (our communities)	Raise £35,000 for Molly Ollys, our employee-nominated Charity of the Year in 2024	In 2024, our amazing people raised £48,000+ for Molly Ollys – a new record! In addition to this, Paragon donated £40,000 to good causes across the UK. See page 41 for further details.
	Undertake 450 employee volunteering days in 2024	Our people exceeded our expectations by spending 460 days volunteering. See page 43 for further details.
Being a responsible business	Implement a new, integrated risk management system to drive data quality, improve reporting and support framework enhancements	We continue to refine the appropriateness of our risk management system and consider improvements and enhancements. This is now embedded activity and is part of the ongoing strategy of continuous improvement in our risk capability.
	Update our approach to lending to sensitive sectors	We are continuing to monitor and update our lending strategy and approach to sensitive sector lending, by assessing the types of assets financed and their impact on the environment. We're also listening to our customers to ensure we have products that support their future needs and ambitions from both financial and sustainability perspectives.

*members of the Board, Executive Committee and their direct reports.



Our key sustainability topics

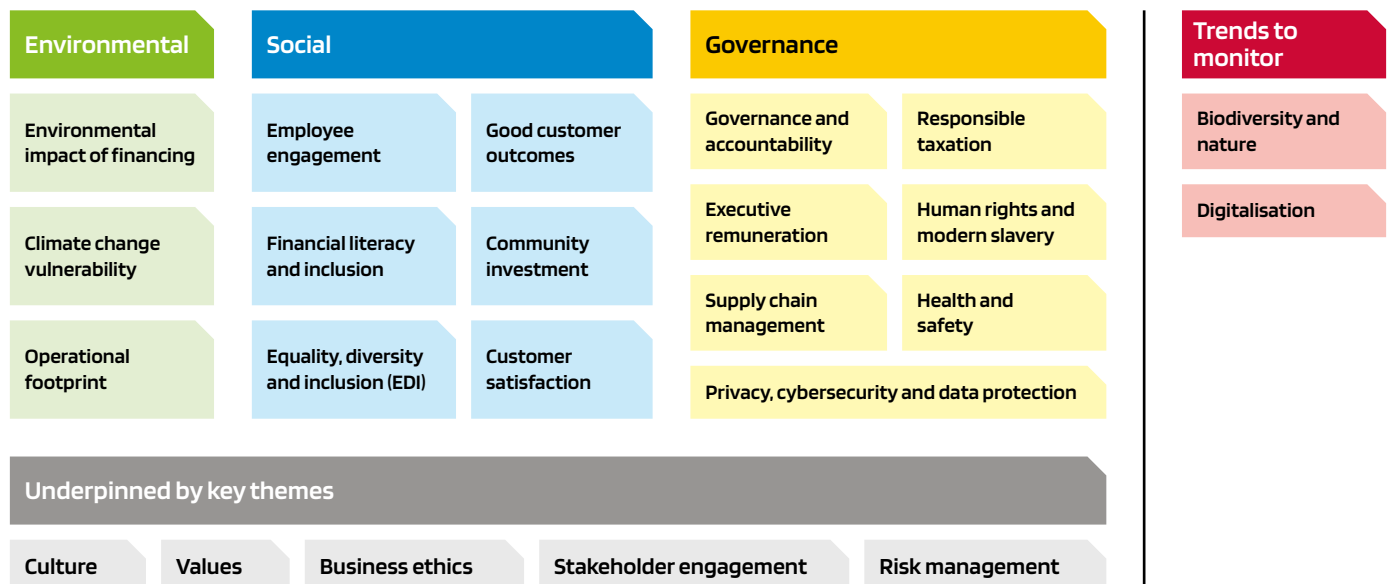
During 2024 we conducted a materiality assessment to identify and prioritise the sustainability topics that are material to our business and a priority for our stakeholders. These issues have the potential to influence our business performance and highlight where we can make the biggest difference.

This exercise, supported by an independent third party, considered our existing approach and priorities, and reviewed industry good practice and 'best-in-class' activity, as well as engaging with internal and external stakeholders.

- ✓ Engaged with colleagues, customers and external stakeholders including trade bodies, analysts and investors
- ✓ Benchmarked immediate and 'best-in-class' peers
- ✓ Analysed 20+ sustainability topics, reporting standards and ratings agencies
- ✓ Assessed the sustainability policy and regulatory landscape



As a result, we identified the sustainability topics which are most material to our stakeholders. We will use these to continue developing our plans and priorities, guiding our approach to being a responsible business which is doing the right things.





Environment

ENVIRONMENTAL APPROACH

We'll tackle climate challenges by using our expertise to inform and influence policy, collaborating to be innovative with solutions, and keeping sustainability embedded as a strategic priority at Paragon, making sure it's a consideration in every business decision we make.

Nigel Terrington
Chief Executive

Making a positive contribution to net zero continues to be a focus for us in addressing climate change. We are fully aligned with the UK's commitment to achieve net zero by 2050, and being transparent about our approach is fundamental to our journey.

This section sets out our developing pathway to delivering this ambition.

Core to our sustainability strategy is acting where we can have a positive and meaningful impact. This focuses on our operations where we have more control and influence, and our financed emissions which are the most material emissions across our value chain.



Our environmental strategy

Our commitment in support of the UK's drive to achieve net zero	Achieving net zero by 2050 across all greenhouse gas emissions		
Pathways driven by climate change scenarios	Reduce our operational emissions to a residual level aligned with a sector neutral 1.5 degree pathway by 2030	Reduce our mortgage portfolio emissions by 35% by 2030 from a 2022 baseline, aligned to the Climate Change Committee's pathway	Continue to develop our approach to emission reductions associated with commercial lending
How we're aligning to our pathways	Complete the decarbonisation of our Head Office by 2030	60% of new mortgage lending rated EPC A-C by 2028	£50m of cumulative lending on electric vehicles by 2028
	Operate an all-electric vehicle company car fleet by 2031	50% of entire mortgage portfolio rated EPC A-C by 2030	Allocate £400m of funding towards the Green Homes Initiative by 2028
		Utilise the PCAF framework to establish and publish a complete financed emissions balance sheet by 2025	

Our environmental journey so far

2020	2021	2022	2023	2024
- Climate change designated as a principal risk - Green mortgage further advance products launched	- Sustainability Committee established to monitor progress on sustainability focus areas including climate - Financed emissions of our mortgage portfolio reported for the first time - Green mortgage product range launched for EPC A-C properties - Launched our inaugural Tier 2 Green Bond	- Became a member of Bankers for Net Zero (B4NZ) - Began offsetting operational footprint 2019 year-end operational footprint emissions set as baseline to track 2030 net zero commitment - Launched our Green Homes Initiative rewarding developers building most energy efficient homes	- Became a member of PCAF - Enhanced performance of climate change scenario analysis - Expanded financed emissions balance sheet to include emissions associated with motor vehicle assets - Performed a decarbonisation assessment of our Head Office	- Combined our secondary Solihull office with Head Office, reducing energy and water use - Achieved 48% reduction in our operational emissions over last five years 95% of our electricity now comes from renewable sources - Expanded our Green Homes Initiatives to £300m with £203m of new lending facilities having been agreed under this initiative to date





During 2024, we undertook a scoping exercise to identify the emissions most material to us. This exercise, which was fully aligned with [GHG Protocol](#), found that Scope 3 Category 15 emissions – essentially emissions from our lending activities – are considered the most material. It also identified that some of these emissions can be excluded due to their low materiality or more appropriately accounted for elsewhere.

Our material emissions and reporting across our value chain

Emissions source				Materiality	Status	Longer term net zero commitment
Scope 1 – Direct emissions				Very low	Included in operational footprint	2030
Scope 2 – Purchased electricity, heat and steam				Very low	Included in operational footprint	2030
Scope 3 by category	1	Purchased goods and services (supply chain emissions)		Low – under development	Significant majority of emissions are not yet calculated. Water supply included in operational footprint	2050
	3	Other fuel and energy related activities		Very low	Included in operational footprint	2030
	5	Waste generated in operations		Very low	Included in operational footprint	2030
	6	Business travel		Very low – under development	Included in operational footprint*	2030*
	7	Employee commuting and working from home emissions		Very low – under development	Emissions are not yet calculated	2050
	15	Financed emissions**	Mortgages	High	Included in financed emissions	2050
			Motor finance	Low	Included in financed emissions	2050
			SME lending	High	Under development as aligned with peers and industry data availability	2050
			Development finance	High		2050
			Structured lending	Low		2050

*Working to expand scope of emissions reporting to include other business travel such as trains and taxis. These emissions are out of scope for our 2030 operational footprint net zero commitment due to their lower control compared to other emissions included in our operational footprint.

**Leased assets incorporated into financed emissions due to similarity of assets and emissions associated with operational lease product.

It should be understood there is uncertainty and reliance on estimates inherent in climate-related disclosures. Our approach will continue to align with good practice and evolve as the quantity and quality of supporting data improves. Due to our continuously evolving approach, there is an increased likelihood of future revisions and updates. This is not unique to Paragon but is relevant to industry-wide climate-related disclosures.



Environment

REDUCING OUR OWN EMISSIONS

48%

reduction in market-based
emissions compared to
2019 baseline

95%

of electricity from
renewable sources

70%

of waste diverted from landfill



We want to make a positive contribution to the challenge of climate change and one of the main areas of focus is reducing the environmental impact of our everyday operations. We're committed to reducing the greenhouse gas emissions of our operational footprint to net zero by 2030.

The nature of our business means the overall impact of our operations is relatively low but we remain committed to identifying, measuring and managing how our actions affect the environment.



Reductions to date

In 2022, we established a 2019 baseline year for the ongoing measurement of the environmental performance of our operational footprint. We continue to monitor the reduction in both market and location-based emissions across our operational footprint and this year saw a 48% reduction in market-based emissions compared to the baseline.

Reductions have been driven by:

- combining our secondary Solihull office with our Head Office in the second half of the year; starting to deliver energy and water savings
- continued improvement to the energy efficiency of our Head Office; after a major heating and internal lighting upgrade in 2023, this year we upgraded our wireless networks and outdoor lighting, delivering further ongoing savings. In addition, we have started a programme to decommission cooling units in our IT server rooms
- rolling-out electric and hybrid vehicles across both our company car and grey vehicle fleets* supported by better quality emissions factor data, has also significantly contributed to the reductions. 22% of our company cars are fully electric and 72% are plug-in hybrids

We offer employees access to a Green Car Scheme, which is a salary sacrifice benefit providing access to lower emission vehicles in a tax efficient way, and we're always working with our people, regardless of what they drive, to reduce business travel where possible.

We take a balanced approach to achieving long-term emissions reductions without sacrificing our purpose and business objectives.

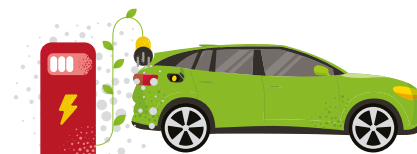
We know we will not necessarily deliver significant reductions every year. Instead, emissions reductions will occur following delivery of specific initiatives, and we expect to also benefit from the wider roll-out of low carbon infrastructure and technology across the UK.

We also accept that achieving net zero across our operational footprint is likely to be challenging and subject to technological developments.

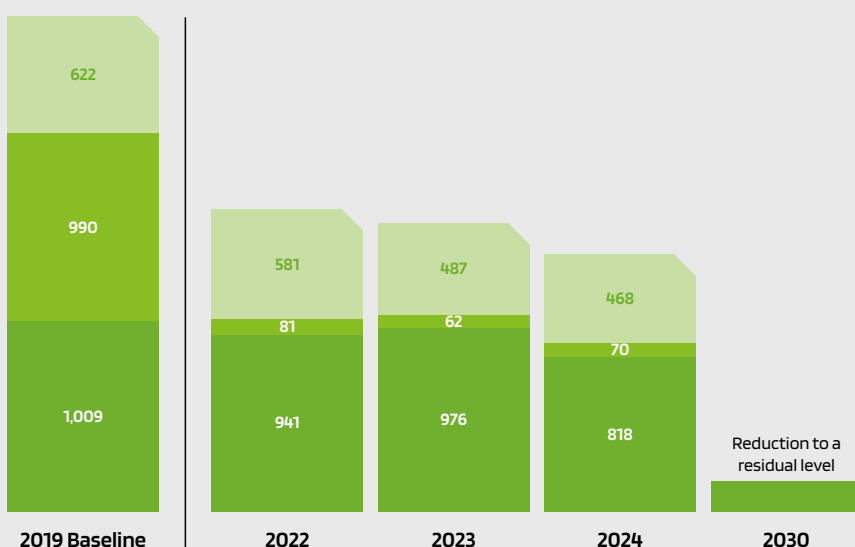
For instance, across employee travel, we are currently constrained by the roll-out of battery electric vehicles (BEVs) in the UK. Although there has been a positive uptake of electric and hybrid vehicles, supported by our Green Car Scheme and our EV office chargers, many of our employees' vehicles, similarly to the rest of the UK, continue to rely on petrol and diesel as their fuel.

Specialist Fleet Services (SFS), which Paragon acquired in 2015, provides local authority customers with vehicle hire and fleet services including servicing, maintenance and breakdown support. Due to the nature of this activity, and the assets which mainly rely on diesel, these emissions are more difficult to reduce. However positive progress has been made across the division and this year 16% of new vehicles hired have been fully electric assets. We continue to work with industry to embrace new technologies and assets to support the decarbonisation of this specialist area of our business.

As part of our net zero commitment we have a plan to reduce emissions where feasible and technologically viable. We understand the ambitious nature of a 2030 commitment and expect there to be a level of residual emissions which we cannot fully reduce due to factors beyond our direct control. We intend to offset these emissions via removals as part of our net zero commitment until the barriers for further reductions are removed. More detail on page 19.



Market-based method CO₂ emissions (tCO₂e)



Our carbon emissions are grouped into three categories

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

Our operational footprint is reported in line with Streamlined Energy and Carbon Reporting (SECR) regulations and in accordance with GHG Protocol guidelines using an operational control approach. The operational footprint includes emissions associated with direct combustion in owned or operated assets, market-based electricity consumption and Scope 3 waste, water, well-to-tank, transmission and distribution and employee travel in private cars (grey fleet). More detail is included in the [Basis of Reporting](#). Our operational footprint has been independently verified by EcoAct.

*grey fleets are vehicles used for business purposes that are privately owned by employees.



Our priorities

We are always looking at how we can further improve the environmental performance of our sites across the UK, the majority of which are office locations that have limited environmental impacts.

Our approach to being operationally net zero by 2030 acknowledges the direct control and influence we have, and our responsibilities in addressing them.

Decarbonisation lever	Emissions impact	Control, influence and dependencies	Progress	Next steps
Removal of gas from our buildings	High Gas heating contributed to 468 tonnes of CO ₂ e	High control Gas is used across eight sites, the plan is to mitigate the majority of these emissions. There remains lower control in removing these emissions from our leased premises	Decarbonisation assessment performed at our Head Office	Project due to commence to decarbonise our Head Office
Electrification of vehicle fleet	High Business travel and fuel usage in vehicles contributed to 338 tonnes of CO ₂ e	Some control Mileage and travel related to company vehicles, where control is higher but also to claimed mileage in personal cars, where control is lower. Emissions across our SFS division are more difficult to abate due to the nature of the activity	68% of claimed mileage on EV and plug-in hybrids	Diesel vehicles will be removed from our fleet by the end of 2025 Commitment to operate an all-electric company car fleet by 2031
Replacement and improvement of site coolants (f-gas)	Low F-gas leakage contributed to 27 tonnes of CO ₂ e	Low control Low control as remains subject to technological advancements	Commenced a programme to decommission cooling units in our IT server rooms at Head Office	Consider f-gas removal and replacement as technology evolves
Increasing the amount of renewable electricity purchased across our sites	Medium Further 54 tonnes of CO ₂ e to be reduced	High control High control as the majority of demand comes from owned sites. Control is lower across 16% of electricity demand which comes from leased sites	95% of electricity purchased from renewable sources	Any new lease or lease extension to consider renewable electricity energy sourcing All new electricity supply contracts are due to come from renewable sources
Increasing site energy efficiency and renewable generation	Medium Expected to reduce indirect emissions which contributed 228 tonnes of CO ₂ e in 2024	High control Across owned sites but remains subject to planning permissions Low control Across leased sites	Decarbonisation assessment performed at our owned Head Office	Project due to commence to increase energy efficiency of our Head Office and improve its EPC rating to at least B
Increasing the efficiency of waste management	Low Waste emissions contributed to 44 tonnes of CO ₂ e, 97% of which comes from our waste not diverted to landfill	High control Control is lower across 56% of waste generated from leased sites	70% of waste diverted from landfill New waste contractor appointed at Head Office to improve the amount of waste being diverted from landfill	Increase the amount of recycling across our offices through employee engagement and education

The financial impact of reducing the emissions associated with the operational footprint is expected to be limited. The expenditure associated with upgrading our assets to lower carbon alternatives continues to be factored into business as usual budgeting. We continue to consider technological advancements across our capital expenditure to upgrade our assets at a time when the technology is viable, its purchase is cost effective and it delivers our strategic goals.

Our approach to carbon offsetting

Within the scope of our operational footprint, we expect there to be some emissions we cannot completely reduce and we plan to offset those to achieve net zero.

This year we purchased a portfolio of Gold Certified carbon offsets. This standard ensures the offsets are of a high environmental quality, while also providing other sustainability benefits aligned with the United Nations Sustainable Development Goals. In 2024, 1,356 credits were retired.

We are clear that our offsetting approach is supported by a commitment to reduce our emissions across our operational footprint and our offsetting principles are fully aligned to our net zero strategy. These are based on the Voluntary Carbon Markets Integrity Initiative and focus on:

- not replacing long-term reduction
- clear communication
- minimum quality requirements

- alignment with Paragon's strategy, purpose and values

New technologies are evolving which will help businesses to reduce their emissions. In the meantime, our responsible involvement in the voluntary carbon market is a crucial step in the transition to a low-carbon economy. We do not currently use carbon credits to offset our financed emissions or wider Scope 3 emissions, and will monitor emerging industry standards in this area as they develop.

Fuel

Our fuel consumption comes from three sources – gas consumed in heating our occupied office buildings, petrol and diesel used in business travel via our employees and the fuel used in our SFS division.

Gas and fuel use has reduced by 14% from last year, principally driven by combining our Solihull offices and the electrification of the company car fleet. At our London office, the gas consumption is purchased through the Green Gas Certification Scheme (GGCS) meaning it has lower carbon emissions and supports the greening of the UK gas network.

Electricity

Since 2019, renewable energy for all our owned sites has been supplied through the grid and we continue to transition our electricity consumption to renewable or low carbon sources. Throughout the year we have increased the ratio of renewable electricity consumed across our property portfolio from 92% to 95%. We will continue to increase this figure, working in partnership with landlords across our leased and service-charged properties.

Waste

We remain focused on reducing the amount of landfill waste and increasing the ratio of recycled waste. We partner with a leading waste solution provider to further segregate waste streams and maximise recycling opportunities. The collection of better quality data on waste generation also means that internal recycling activity can be better targeted.

The Group's long-term strategy is to increase the percentage of waste which is diverted from landfill and re-used, recycled or recovered.

When we combined our secondary Solihull office with our Head Office, surplus furniture was donated to charities and good causes. This initiative helped reduce the amount of waste to landfill whilst also supporting community organisations we partner with, saving them the expense of purchasing new furniture.

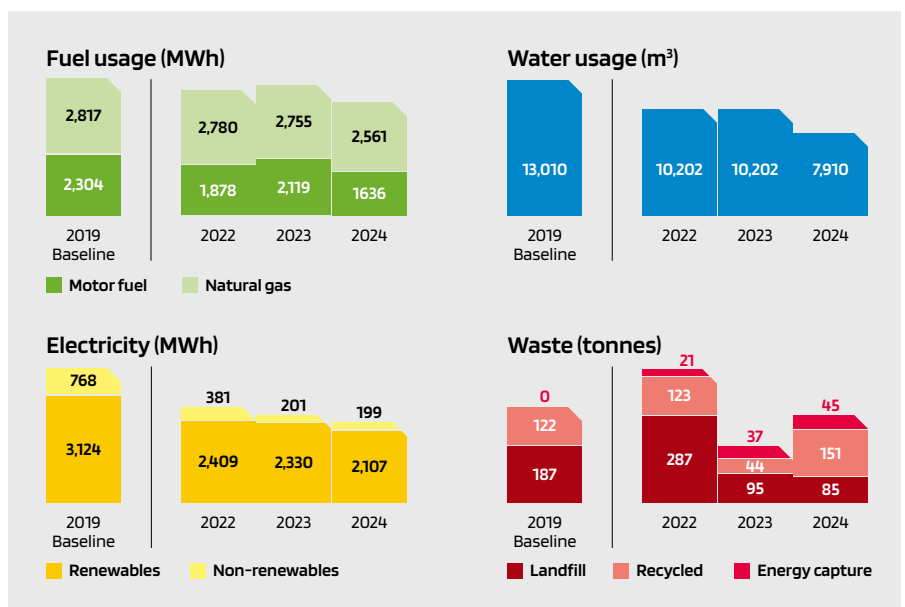
This year, we supported the Great Big Green Week with company-wide awareness and education communication to refresh our employees' knowledge and to remind them of the benefits of environmental responsibility in the workplace.

We encourage our employees to donate used batteries to Cancer Research UK to support their partnership with recycling organisation EcoSurety, which donates £100 for every tonne of batteries collected.

We also work with the British Heart Foundation, and host donation points in our offices so our employees can donate items to be sold and help fund life-saving research. In 2024, we donated 155 bags of clothing and household goods to support fundraising, as well as preventing waste being sent to landfill.

Water

Our sites use water responsibly and consumption throughout the year has not changed significantly due to maintained occupancy levels and previously delivered water efficiency measures.





Supply chain emissions

Our principal suppliers comprise an outsourced savings administrator, legal and professional services providers, building lessors and IT service providers. They all have a similarly low operational and climate change impact.

Throughout the year we have continued to engage with suppliers at the onboarding stage to better understand their maturity across various sustainability topics, including environmental impacts. Using our new third party platform, new high and critical suppliers are asked to complete a due diligence questionnaire which considers whether they currently have forward-looking goals for environmental or social issues such as climate change or equality, diversity and inclusion.



Work from home emissions

We have successfully operated a hybrid working model for several years so it is important that we understand the emissions arising from working from home, as well as in our offices. We continue to improve our data on office occupancy to help measure our work-from-home emissions and we will continue to align our approach with developing good practice.



Commuting emissions

How our employees travel to and from their place of work contributes to our value chain emissions. We support our people in changing their commuting habits and switching to lower-carbon methods of transport where possible. This includes:

- a Green Car Scheme enabling employees to save money on the cost of a new electric or hybrid car
- a car-sharing initiative for employees to buddy up with those who live locally to each other
- a Cycle-to-Work scheme offering savings when purchasing bikes and cycling accessories
- National Express discounts for bus and train passes
- public transport pass loans throughout the UK

Focus areas

Complete the decarbonisation of our Head Office to reduce our operational footprint emissions to be net zero by 2030

Survey our people to understand the emissions arising from commuting

Develop a methodology to calculate the emissions associated with our supply chain





Environment

FINANCING A GREENER WORLD

**53.4%**

of new mortgage lending was to EPC A-C properties supported by our range of mortgage products

£300m

of finance allocated to property developers through our Green Homes Initiative

£17m

new lending on electric and plug-in hybrid vehicles during the year

Our most material emissions are generated from our customers' assets and activities – these are called financed emissions. Although we lack direct control over reducing these emissions, we understand that we have an opportunity to drive positive action by influencing and supporting our customers on their own net zero journeys.

We've been clear that we are committed to the UK's goal of achieving net zero by 2050 but we are also clear that this can only be achieved with significant and ongoing support from government and industry partners.

We're determined to keep playing our part. This section outlines the activities we are undertaking and how they support our alignment to our climate change pathway which requires a 35% reduction in mortgage financed emissions intensity by 2030, compared to our 2022 baseline, as well as for our commercial lending activities.



Our approach

To plot a clear pathway to net zero, we need to fully understand our financed emissions and we've prioritised setting out a transition journey across the sectors in which there is a reliable, recognised and traceable view of emissions.

Currently we are focussing on our mortgage portfolio which makes up over 85% of our loan book and is where we have relevant data that can measure emissions. We use a four-step approach to establish our transition pathway. This is an evolving process and we will follow this approach for other assets in the future.

Emissions arising from our commercial lending activities are also relevant but real-time data and industry standards to measure these remain under development, making it challenging to fully understand an accurate emissions baseline and any associated decarbonisation pathways.

As is the case across the wider financial services sector, we are working hard to better understand these emissions and the opportunities to reduce them. As soon as industry data can support effective decision-making and the development of reduction pathways, we will expand our approach.

We continue to engage with industry and policymakers to encourage the development of granular sector and industry decarbonisation pathways and carbon budgets for the UK. This provides us and other stakeholders with longer term, tangible and UK-specific decarbonisation pathways which are not currently available.



We are a prudent, risk-focused, specialist bank with a closely-controlled, cost-efficient operating model. Customers are at the heart of our business and we use our expertise to provide financial products and support to help them achieve their ambitions, including those on sustainability journeys. At the same time, we have our own net zero commitment, which will be delivered in a pragmatic and considered way. //

Richard Woodman
Chief Financial Officer



Feedback loop driven and subject to improving climate related data quality in the sectors in which we operate

1. Measure

Measure financed emissions inventory using PCAF guidance

2. Establish transition pathway

Use published decarbonisation reference scenario to generate a decarbonisation pathway

3. Report

Monitor and disclose progress

4. Reduce

Deliver on focus areas by creating sustainable lending and products to support meaningful long-term reduction



Measuring our financed emissions

Although measuring Scope 3 financed emissions is a challenge given the reliance on external and open-source data, we have an ambition to develop a full, externally published financed emissions balance sheet covering the emissions associated with our lending portfolio.

Alongside our mortgage portfolio emissions, we have disclosed the emissions of our motor vehicle loans across the motor finance and SME lending portfolios. Our approach uses the PCAF methodology, the most widely adopted global standard for measuring and accounting for Scope 3 financed emissions, now covering 85% of in-scope balances. More detail on our calculation methodology can be found [here](#).

Although high level estimates can be made to assess the scale of those financed emissions not captured below, accurate and reportable emissions for year-on-year tracking are not yet available. As an active member of PCAF and its internal working groups, we recognise that financed emissions data relies on a significant number of assumptions. Therefore, we continue to review our methodologies and improve our data quality in line with developing good practice.

Business area / asset type	Mortgages ¹		Motor ²		SME lending - Motor vehicles ³	
Balance with emissions data (£m)	13,415.7	12,902.3	225.9	206.1	172.1	106.4
Data coverage	100%	100%	100%	94%	100%	100%
Absolute financed emissions (kilotonnes CO ₂ e)	234.7	257.9	14.6	13.2	57.9	37.8
Economic emission intensity (tonnes CO ₂ e per £m balance)	17.4	19.9	65.3	69.1	335.5	356.3
Physical emissions intensity (CO ₂ e per physical activity factor)	44.7 KgCO ₂ e/m ²	46.4 KgCO ₂ e/m ²	0.3 KgCO ₂ e/mile	0.3 KgCO ₂ e/mile	0.3 KgCO ₂ e/mile	0.3 KgCO ₂ e/mile
Physical activity factor ⁴	/m ²	/m ²	/mile	/mile	/mile	/mile
PCAF data quality score ⁵	3.1	3.1	2.4	2.6	2.9	2.8

2024

2023

¹Mortgage emissions are calculated using EPC data. Where EPC data is not available, emissions intensity is estimated based on property type and age. Where no information is available, a UK average is applied from the EPC database.

²Motor finance emissions currently exclude motor homes, caravans and trailers.

³Across Motor and SME lending, passenger and light commercial road vehicles have been identified and their number plates provide accurate emissions data when combined with estimated annual mileage. Where emissions from number plate data is not available, emissions are estimated based on the vehicles' fuel type, make and model or from UK averages. Emissions only cover passenger and light commercial vehicles, the emissions associated with other asset types remain under development.

⁴Physical activity factor data is based on customer and loan data where available. Where not available, an industry average is applied.

⁵The PCAF data quality score provides recognition of data accuracy based on the level of inherent assumptions. These are outlined for each asset class reported. A PCAF score of 1 is considered to be a more accurate estimation of financed emissions, while a PCAF score of 5 is considered to have a much larger margin of error.



Our mortgage portfolio transition pathway

In 2015, the Paris Agreement – a legally binding international treaty on climate change – committed to pursue efforts to limit global warming to 1.5 degrees Celsius, compared to pre-industrial levels. Aligned to that commitment, we are working towards a 35% reduction in mortgage-financed emissions intensity by 2030 compared to our 2022 baseline.

Financed emissions from our mortgage portfolio are calculated using the PCAF methodology and Energy Performance Certificate (EPC) data, allowing us to monitor and report progress.

While EPC data is the best available source of emission information across UK residential real estate, there are inherent limitations including the time lag of data and the prioritisation of energy efficiency over decarbonisation. Additionally, EPCs do not reflect real-life data or consumption.

However, EPC data still provides a useful reference point for decarbonisation and we continue to support government proposals for improving EPC coverage and metrics through our active participation in the Bankers for Net Zero EPC reform workstream.

To establish our transition pathway, we have used:

- ✓ 2022 as our baseline year
- ✓ the 1.5 degrees Celsius Climate Change Committee's Balanced Net Zero Pathway (CC BNZP) scenario, which is considered the most appropriate scenario given the focus on UK property and the UK's trajectory to net zero by 2050
- ✓ the Science Based Target initiative's (SBTi's) Sectoral Decarbonisation Approach (SDA)

More detail on our approach can be found [here](#).

Based on these pathway assumptions we estimate the physical emissions intensity of our mortgage portfolio will need to reduce by 35% by 2030, from the 2022 baseline, to be aligned with the UK's 2050 net zero target.

The scale of reduction highlights the sector-wide challenge and uncertainty which lie ahead. The articulation of our decarbonisation pathway outlines our maturing understanding of climate change and how it can contribute to our future sustainable product development whilst sustaining our robust, long-term business model.

It should be noted that the baseline and the subsequent pathways may be subject to change as finance sector data and decarbonisation reference pathways are improved or updated. At Paragon, we continue to enhance the data quality and our internal capabilities to address these challenges, however users of the information should be aware of the challenges and limitations of climate-related data. Our disclosures are evidence-led and outline our understanding of the challenges faced in the fight against climate change.

Our progress

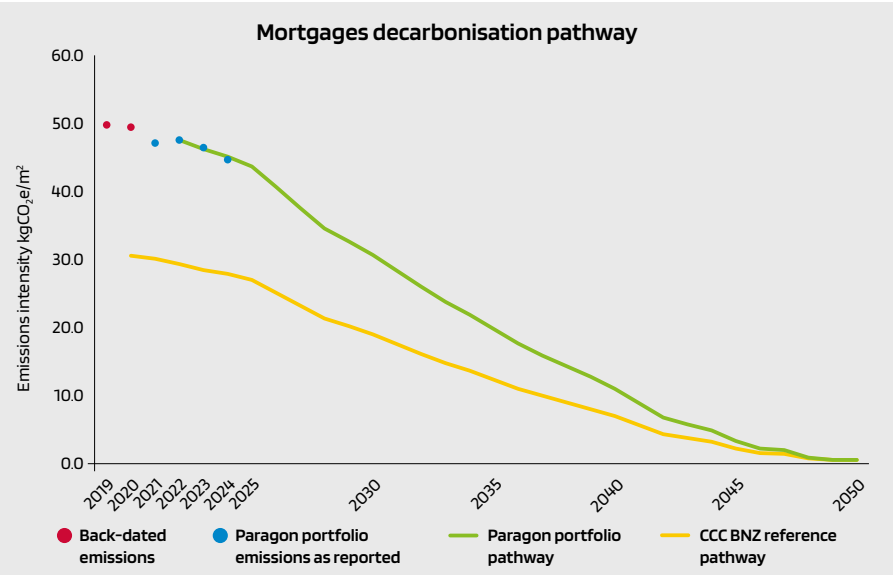
Although we lack direct control over how and when our customers decide to upgrade or decarbonise their properties, we can support and incentivise them on their net zero journeys. Our actions to date have focused on offering products aimed at retrofitting and portfolio evolution, as well as educating and engaging with customers on energy efficiency regulation, and increasing awareness of the challenges and opportunities.

Since 2021, we have offered lower interest rates to landlord customers applying for funding on properties with an existing EPC A-C rating.



This is to incentivise them to purchase more energy-efficient properties and, year-on-year, we have seen an increase in the ratio of EPC A-C rated property inflows across the portfolio. 53.4% of new originations in 2024 had an EPC of A-C, up from 45.1% in 2022. Throughout 2024, our new lending business has, on average, been almost 10% less carbon-intensive than our existing portfolio.

As well as offering additional incentives for our customers purchasing energy-efficient properties, we are focused on supporting energy-efficiency improvements to the existing housing stock, much of which is likely to still be around in 2050. Our refurb-to-let and further advance products enable our landlord customers to use the funds for home and energy-efficiency improvements. As well as making a positive contribution to the environment, these products aim to improve the overall quality of housing in the private rented sector, and bring down energy bills for tenants.



Back-dated emissions have been estimated based on the EPC data which would have been in place during that period. There is lower data quality for these estimated emissions due to a heavier reliance on extrapolated emissions data.



In addition, we are continuing to develop a retrofit product tailored to support landlords who specifically want to purchase lower-rated EPC properties and then improve the properties' energy efficiency.

During 2024, we performed a scenario analysis assessment on our decarbonisation pathway to 2030. It highlighted the importance of the following decarbonisation levers, which will need to be addressed across the mortgages sector:

- ✓ Data strategy and EPC data enhancement
- ✓ Retrofitting the current UK property stock through EPC improvements
- ✓ Electrification and decarbonisation of heat mainly through heat pump uptake
- ✓ Reducing the emissions of electricity generation

The potential impact of each of these decarbonisation levers is outlined in the table below as well as our control, influence and dependencies on external stakeholders.



Our priorities

Decarbonisation lever		Emissions impact	Control, influence and dependencies	Progress	Next steps
EPC data strategy and data enhancement Enhancement of EPC data to provide accurate and up-to-date property information		High Sensitive to electricity grid decarbonisation which is the fuel source expected to have the most material change over time	Partial control Currently a reliance on EPC data provided by UK government Third party data can also be used to enhance data quality	Underwriting requires properties to have a valid EPC in place Feeding into UK government consultation on EPC data strategy through B4NZ membership	Continue to increase EPC data coverage and our work with B4NZ
Portfolio energy efficiency	Portfolio evolution New lending on newer, more efficient homes	High Highly sensitive to customers' willingness to invest	Partial control Although products can be offered, they remain subject to customer appetite and demand influenced by policy	Green mortgage products released in 2021 offering preferential terms to customers applying with more efficient EPC rated A-C properties	60% of new mortgage lending rated EPC A-C by 2028
	Retrofitting Improve energy efficiency of properties on our loan book	High Due to generally older UK property stock portfolio, evolution alone is unlikely to meet required emissions reduction without retrofit work		Refurb to let product launched to support customers who wish to upgrade their properties	Update our product range to further support our landlord customers so they can more easily perform retrofit work on properties
Heat and building strategy Heat pumps and low carbon heating roll out – including on-site generation (solar)		Medium Significance grows in importance if retrofit action is slow	Very low control Uptake is strongly dependent on customer demand, appetite and government grants	Our website outlines benefits of retrofitting and links into the Energy Savings Trust which outlines various options for lower carbon home heating systems. Alternative heating systems include heat pumps, biomass and solar	Continued customer support through educational articles and helpful links
Electricity grid decarbonisation Increased use of zero carbon renewable electricity generation and move away from fossil fuel generation		Medium Impact highly dependent on successful heat pump rollout	No control UK grid decarbonisation is wholly dependent on infrastructure and renewable investment	Not an area of focus due to the low control and influence	

Against this backdrop, our areas of impact are limited to portfolio evolution, retrofitting and refurbishment, product development, and engagement and education, all of which are still subject to customer appetite and demand influenced by government policy. Due to our lower direct control and influence, the financial impact of delivering across these key areas is not expected to be significant.

However, our strategy focuses on supporting customers by offering sustainable products, while providing engagement and education across key decision points. It also maximises the impact of other indirect levers that are available to us to drive positive environmental change across our current and future customer base.



The ongoing challenge

The greenhouse gas emissions from the UK's residential housing stock account for around 20%* of the UK's emissions annually. These emissions need to be reduced to net zero if the Government is to meet its legally binding target of net zero by 2050.

However, it's important to recognise that the UK has some of the oldest properties in Europe** resulting in lower energy efficient properties in the housing stock. Currently nearly 60% of the UK's residential property market is rated at EPC D and below. This means the decarbonisation of these properties is complex and multifaceted, with many dependencies which remain uncertain for decarbonisation to occur at the speed required for pathway alignment.

Our ability to implement and finance real change is subject to a number of external factors where we have reduced or little control and/or influence. The assets we fund are specific to certain sectors and industries, and consequently showing emissions reductions is dependent on future technological advancements and their successful roll-out in the industries in which we operate.

The financial services industry has been clear in highlighting the importance and dependency it has on industry-wide action, supported by ambitious government policy and commitments. Following challenges such as the cost-of-living, a high interest rate environment and previous government reversals on climate regulations, a cohesive and coherent long-term approach, with clear policies,

firm commitments and financial support from government are needed for the financial services industry to be able to support real change.

The UK's wider lack of progress in reducing emissions is another challenge beyond our control. The Climate Change Committee reports to Government on its progress towards meeting the UK's net zero target. In several sectors in which Paragon operates, the Committee has highlighted key indicators that are not on track, which in turn threaten our ability to show emissions reductions aligned with net zero.

How Government's progress against key indicators impacts our ability to achieve a 35% reduction in mortgage emissions

Contribution to decarbonisation***	Decarbonisation lever	Buildings key indicator	Rating
4% - 8%	Data strategy and EPC data enhancement	Reform domestic EPC metrics	Overdue
		Mortgage lenders EPC disclosure consultation	Overdue
7% - 14%	Retrofitting the current UK property stock through EPC improvements	Energy efficiency measures	Significantly off track
4% - 9%	Electrification and decarbonisation of heat	Heat pump installations	Significantly off track
		Heat pump cost	Significantly off track
		Trained heat pump installation	Significantly off track
		Low-carbon share of heat supply	Slightly off track
		Electricity to gas price ratio	On track
0 - 10%	Reducing the emissions of electricity generation	Low carbon or renewable electricity generation capacity	Slightly off track
		Share of electric generation coming from gas	Slightly off track
Total 35%	Pathway reduction		

*commonslibrary.parliament.uk/research-briefings/cbp-8830/

**www.hbf.co.uk/documents/12932/International_Audit_Digital.pdf

***Contribution was calculated as part of the scenario analysis assessment performed throughout the year.



Dependency and sensitivity analysis

During 2024, an internal assessment of the mortgage decarbonisation pathway was performed which considered likely policy outcomes and portfolio evolution between now and 2030.

The analysis indicated that although new business volumes on more energy-efficient properties could close the gap, a significant amount of retrofitting across all UK residential properties is still required to align the portfolio emissions with the ambitious Climate Change Committee scenario. This highlights the sensitivity of our decarbonisation pathway to customer action and supporting government policy on retrofitting.

If there is not a significant shift in both industry and policy development, we are unlikely to remain aligned with our mortgages decarbonisation pathway – a common challenge across the sector. Regardless, our strategy to support our mortgage customers on their net zero journeys remains firmly in place.

Infrastructure and cost

The cost of retrofitting and low carbon infrastructure continues to be a barrier and survey findings indicate a customer's willingness to spend does not necessarily meet the cost of decarbonisation works. We also recognise that the lack of skilled tradespeople to carry out the required retrofitting decarbonisation work could impact the time taken and the ability of our customers to retrofit their properties. A similar dependency exists in our other operating segments such as our motor and asset finance.





Commercial Lending

Across our Commercial Lending division, we provide specialist secured finance to a wide range of small and medium-sized businesses and property developers across the UK. In the absence of an industry-recognised UK taxonomy, we are not yet in a position to disclose our portfolio pathways. However, we continue to take action and support our customers wherever they are on their own net zero journeys.

Our actions to support significant emission reductions in these markets range from the construction and retrofitting of energy-efficient properties, to the development and roll-out of alternative low-carbon powered vehicles.



We recognise the importance of offering financial products which support these initiatives to help our customers transition towards net zero. By leveraging our strong balance sheet and robust credit standards we can have a meaningful impact without over-exposure to stranded asset risk via lending on unproven or developing technologies.

In the meantime, our focus is on encouraging the development of new energy-efficient buildings, including future-proofing properties so they meet broader environmental objectives and standards.

This led us to launch our Green Homes Initiative, a popular scheme which supports housebuilders developing new domestic properties with the highest energy performance standards. Launched in 2021, the scheme offers developers a reduced loan exit fee when they deliver homes with an EPC rating of A.

The uptake for this scheme has been encouraging and in 2023 we doubled the amount of funding dedicated to incentivising the construction of more energy-efficient properties to £200m. During 2024, to reflect strong demand, we increased this fund further to £300m, and funding in this space continues to be successfully rolled out to customers.

SME lending

In our SME lending business, we provide asset finance in a variety of industry sectors, and we are always looking at how we can support our customers to achieve their objectives in a sustainable way. We are tailoring our lending to our customers' needs and helping them to progress towards their own sustainability goals.

As funding sustainable assets can have higher up-front costs for the customer, we focus on helping them understand those dynamics and we work with them to find appropriate funding solutions.

During 2024, we established a team of Green Champions to provide specialist support to SME customers looking to improve their sustainability performance.

Green investments such as renewable energy technology remain high on the agenda for our SME customers. As such, our Green Champions network helps customers and brokers keep up-to-speed with developing infrastructure and technologies, through sign-posting and knowledge-sharing. They also monitor the changing regulatory and policy landscapes, to ensure they are kept abreast of the latest requirements, opportunities and trends.

Helping SME businesses reach net zero

This year, Paragon's SME lending team provided funding for Otto Cars to acquire a fleet of zero-emission taxis, using an innovative pay-per-use funding model, facilitated by leading fintech company Zeti. The pioneering approach allows Otto to repay its facility depending on the usage of the vehicles, thanks to Zeti's tracking technology, which offers real-time monitoring of the fully electric vehicles.



Development finance

The embodied carbon from the construction and refurbishment of buildings currently makes up 20% of the UK's built environment emissions.* Although larger corporates, leading developers and infrastructure organisations now measure and optimise the embodied carbon footprint of their projects, it is not regular practice across the SME sector in which we operate. To help address this, we strongly support the development of a dataset across the industry, to support our customers on their decarbonisation journeys, as well as improving the reporting of our financed emissions.



Green investments such as renewable energy technology are high on the agenda at the moment, and being a Green Champion for Paragon means learning more about the sector and the assets so we can keep my colleagues, customer and brokers up to speed. It's an exciting time to be involved with this type of funding, especially when you see how customers benefit from lower energy bills and how they then can invest funds elsewhere in their business. "

Adam Zadora

SME Business Development Director





Motor finance

During the year we have provided £17m of finance on electric and plug-in hybrid vehicles, supporting the roll-out of lower carbon vehicles in the UK's second hand motor market.

The transition to low carbon motor vehicles continues to be both a challenge and opportunity for manufacturers, retailers and lenders. After expanding our product range to include lending on battery electric vehicles (BEVs) in 2022, it was further expanded in 2023 to include battery electric light commercial vehicles. During 2024 there was been an upward trajectory for new electric car registrations across the UK. Therefore, as a lender serving the second-hand vehicle market, we have seen steady progress across our BEV lending as new cars transition into the secondary market. We expect to see further expansion in years to come as the market share of BEVs in the second-hand market continues to increase. Although growth is expected in the BEV market, we will continue to take a prudent approach to our lending across BEVs, ensuring our credit policy remains present and considers the risk of continued value fluctuation as the technology develops.

Cost and infrastructure development continue to reduce customer demand for low carbon assets. Investment is required to increase the accessibility and affordability of the charging infrastructure. In addition, the generally higher vehicle purchase cost remains a significant barrier to adoption. We will continue to monitor these key areas and review our engagement and implementation plans accordingly.

Green Bond

In 2021, we became the first bank in the UK to issue a subordinated Tier 2 Green Bond, raising £150m. The proceeds from the bond have been allocated exclusively to fund newly originated buy-to-let mortgages secured on EPC A-B rated properties. The Green Bond sets out the Group's ambition to finance £150m newly originated eligible EPC A-B rated mortgages within two years of issuance.

It has acted as a catalyst across the business, embedding sustainability within Paragon's long-term strategy. The Green Bond Investor report is published annually – the latest report is available [here](#) and outlines progress as at 31 March 2024.

We have achieved full allocation of £150m of EPC A-B buy-to-let loans supported by the increased new EPC A-C lending from our green mortgage product range. The next investor report will be published in May 2025, covering the period to 31 March 2025.

The transition journey

Although the transition to a low carbon economy is expected to impact the way industries in which we lend to operate, the change is not expected to occur overnight. We expect our business model to evolve, maintaining our position as a specialist lender with robust credit standards. By leveraging our diverse balance sheet, we will continue to meet the expectations and needs of our customers and the real economy as it transitions. We do not expect our strategy and business model to be materially impacted whilst both the UK and our business transitions to net zero.

Supporting a 'just transition' is a key cross-cutting theme which we continue to consider within our sustainability strategy. In our role as a financial institution, we continue to support our customers as the UK economy decarbonises, supporting the retrofit and roll-out of low carbon assets as and when the technology and infrastructure is sufficiently mature to meet our customers' needs. Our approach continues to consider competing issues such as cost of living and high interest rates to ensure we are serving the market in which we operate.



Focus areas

60% of new mortgage lending rated EPC A-C by 2028

50% of mortgage portfolio rated EPC A-C by 2030

£50m of cumulative lending on electric vehicles by 2028

Allocate £400m of funding towards the Green Homes Initiative by 2028

Utilise the PCAF framework to establish and publish a complete financed emissions balance sheet by 2025

Further support our landlord customers to improve the sustainability of their properties by updating our product offerings

Continue to build our capability to lend against green assets, including working with the British Business Bank through the Growth Guarantee Scheme

Our focus areas across our mortgage portfolio utilise EPC data to monitor and track progress. We understand that the new government intends to consult on EPC reform and we are actively involved in these developments through our participation in the B4NZ EPC reform workstream. If there are any subsequent changes to EPCs or if an equivalent measure is established, we may need to update our focus areas accordingly.

**Society**

MAKING A DIFFERENCE

Our customers

21,700+

customers surveyed
during 2024

4.7/5

Trustpilot score*

94%

of our customers gave us a 4
or 5 star rating on Trustpilot

Our purpose is to support the ambitions of the people and businesses of the UK by delivering specialist financial services. In practice, that means putting our customers at the heart of everything we do.

We use our expert knowledge and experience to develop products and support to help meet the needs of our customers – and that includes helping them to make sustainable choices.

Our first priority is delivering good outcomes for our customers, treating them with fairness and respect. Being the best we can be for our customers, while always looking at how we can improve, is embedded into our everyday activities across our entire business.

*1 October 2023 – 30 September 2024 for savings and mortgage customers.

Image courtesy: Clyde Property.



Our customer commitment

With customers being central to everything we do, our customer commitment is underpinned by our conduct policies and standards, ranging from product governance to complaints handling, and from distribution to servicing.

Those commitments are regularly reviewed, meaning we maintain the highest possible standards and continue to deliver the outcomes our customers have come to expect from us.

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

- ✓ our products and services are designed to meet their needs, and are priced fairly
- ✓ our employees are skilled and experienced to provide the services our customers require
- ✓ the information given to them will be clear and jargon free
- ✓ products will perform as they are led to expect
- ✓ we design processes that allow them to make the right decisions for them, and support their financial needs
- ✓ all complaints will be listened to, and claims will be reviewed carefully, fairly and promptly
- ✓ where applicable, they will be made aware of how they can refer their complaint to the Financial Ombudsman Service
- ✓ if they are in a vulnerable situation and/or in financial difficulty, we will provide a high level of support. We will look to resolve issues when they occur and complaints will be handled fairly
- ✓ they will be made aware of the Financial Services Compensation Scheme (FSCS) and the protection this provides for them
- ✓ our standards will raise consumer protection and deliver good customer outcomes



We share an annual report covering the progress we've made in implementing Consumer Duty across the Group with our Board. It is reflective of our entire customer base and highlights some impressive innovations around customer understanding, emphasising the good work we've done on price and fair value and helping to keep a laser-like focus on delivering the good outcomes our customers expect. "

Stewart Pritchard

Head of Operational Conduct



Paragon Bank is EXCELLENT

Paragon Bank is EXCELLENT. Good financial products, great interest rates, easy to use website and efficient telephone response when needed. I have used this bank for many years and have had very good experiences throughout. In these uncertain financial times this is very important to be able to check all suppliers service and financial products; Paragon has an easy to understand website and I have found them to be competitive and have a good range of financial choice; they often offer better choices than rival banks.

A Paragon Customer



...Satisfaction with Paragon

Honesty and simplicity, coupled with efficiency is the cornerstone of good business practice. You exhibit this, plus the fact that one can actually speak to a real person almost immediately without being taken through so many obstacles is very refreshing.

A Paragon Customer





Customer insight

In 2024, our Insights team continued working with colleagues across the entire business, to deepen our understanding of customers' needs. This helps us measure customer satisfaction with our products and services, and inform our strategy to meet their requirements and keep improving their experience.

Customers in vulnerable circumstances

The Financial Conduct Authority (FCA) estimates that 50% of us will be impacted by circumstances which could make us vulnerable at some point in our lifetime. This could be because of poor health, an unfortunate life event, low capability or resilience. If this does happen, it can become challenging to manage our financial affairs, so we believe it's only right that banks and financial services providers act in a way that is supportive and prevents foreseeable harm.

Our culture is focused on understanding the factors which drive vulnerability and making sure our employees recognise the signs of customers who may be in difficulty.

During 2024 we reviewed our capabilities to support customers who might be facing difficulties. As a result of this review we've made enhancements, such as introducing new automated voice systems and new processes for emailing our customers. We'll keep enhancing our communication channels to ensure we're offering our customers choices which best work for them and their needs.

We've also been working on a policy to strengthen protection for customers in financial difficulty, building on the tailored support guidance we first introduced during the Covid-19 pandemic. This will be formalised through an action plan to enhance our controls and procedures across the business.

Our internal Customer Vulnerability Awareness Campaign Group, comprising employees from across Paragon's different businesses, meets on a regular basis to share customer experiences and learnings. Our internal Think Customer! campaign ensures our people are fully aligned around the need to champion customers, including those in vulnerable circumstances.

In 2024, we continued to work with professional actors to deliver Applying Customer Excellence (ACE) training, bringing the customer journey to life through an immersive, role-play experience. This training is part of our business-as-usual approach to understanding the challenges faced by some of our customers. Over the last two years, 410 individuals have received this training, covering a variety of topics over a total of 2,657 hours.

Our longstanding relationship with the Royal National Institute for the Blind allows us to translate documents into braille, large print or audio files – something we did 88 times this year. We are also members of the Death Notification Service, which enables customers to simultaneously notify multiple banks and building societies of a person's death. This year, we were notified about 342 customers who had passed away, triggering our process to send our condolences and provide advice on the next steps for the relevant accounts.

2024 customer experience examples

Consumer understanding testing

As part of our ongoing commitment to communicating clearly with our customers, this year we undertook a deep dive exercise across our savings, motor and mortgages customer communication. As part of this assessment, we included individuals in vulnerable circumstances, and considered how easy our emails, letters and push notifications were.

Feedback helped us to identify potential accessibility issues, simplify complex information and ensure our messaging is inclusive, customer-centric and easily understood by everyone. An example of this was our Power of Attorney guide, where we added explanatory notes to help customer understanding.

We also used focus groups to evaluate the effectiveness of our processes and initiatives, gathering feedback from our employees for any areas for improvement.

Next Generation Landlord Report

We surveyed 500 of our landlords to better understand the challenges and opportunities they face. The findings told us that long-term tenant demand and a desire to supplement retirement income are the primary drivers for our aspiring landlords. The survey also revealed that long-term house price growth is a significant driver for their investment decisions, and that many prefer property as an investment over other options.



Materiality assessment

To help us identify the most material sustainability topics and key emerging sustainability themes, we carried out a materiality assessment which involved us asking our mortgage and savings customers for their views. The results confirmed the issues that matter most to them and highlighted areas for us to focus on in the future. See page 12 for more details.

Helping our employees to support customers experiencing vulnerability is fundamentally important, which is why we are always looking at new topics and resources. A great example is the 'micro learn' training we delivered this year on empathy and sympathy – a quick but engaging way of making sure our employees are well positioned to build the right connections with customers who find themselves in vulnerable situations. "

Emma Davies

Customer Vulnerability Manager



This year we utilised the 24/7 Samaritans Awareness Day to refresh our employees' skills around active listening. In further support of customers' wellbeing, we also signpost to Cruse, Relay UK, Money Helper, Citizens Advice and StepChange when they need to access specialist or independent support and advice.

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



Listening to our customers

Despite our best intentions, we sometimes get things wrong and when that happens, we take customer complaints very seriously and prioritise resolving issues effectively.

To make sure we deliver consistent and good outcomes for our customers, we follow the FCA's Dispute Resolution Sourcebook. In practice, this means we:

- ✓ signpost different ways for our customers to get in touch with us
- ✓ acknowledge each complaint properly
- ✓ fully investigate the issues raised
- ✓ respond in a fair manner
- ✓ provide information on the alternative dispute resolution options

We are focused on understanding the drivers of customer complaints and every business area across the Group completes a regular root cause analysis. We use these outputs to assess and then improve our processes, all with the aim of making the customer journey as smooth as possible and therefore avoiding similar complaints in the future.



We compare the performance of our complaint metrics to our peers and the industry as a whole, and we check our compliance against regular industry publications from the FCA and the Financial Ombudsman Service (FOS).

We also monitor complaint volumes, identify trends and make sure lessons are learnt through our own Customer and Conduct Committee, which is chaired by Jenny Davies, our Conduct and Compliance Director.

In line with industry good practice, Paragon uses FOS complaints data as a high-level satisfaction metric, and incident rates remained low throughout the year:

Six months ended		
	30 June 2024	31 December 2023
Paragon uphold rate	16.0%	26.1%
Industry average uphold rate	35.0%	36.0%

FOS data across the financial services industry is published at www.financial-ombudsman.org.uk

Financial literacy, inclusion and wellbeing

Following an exercise in 2023 to look at motor finance and savings customer journeys, in 2024 we identified and

reviewed key journeys for our secured lending and second charge mortgage customers. In doing so, we developed a deeper understanding of these customers' needs and have since updated our communications materials and channels to reflect the findings.

Led by our Operational Support team, we have built a library of consistent, customer-friendly communication material, which will be regularly reviewed and implemented across the Group's different business areas.

Internally, we have developed new 'Tone of Voice' guidelines for our employees to ensure all our communications remains accessible and easy to understand.

Focus areas

Continue to implement remaining cloud-based and digital-first technologies by the end of 2027

Continue to utilise real-time data exchanges such as API and open banking technologies to improve customer journeys

Work to improve and better understand customer satisfaction levels and continue our focused commitment of delivering good customer service

Carry out regular 'Customer Closeness' exercises, meeting customers from across the business to ensure we continue to understand their challenges and how we can support them

Every employee at Paragon is an individual person with their own unique way of communicating but it can be helpful for customers to expect a harmonised 'sound' so they receive consistent experiences. With this in mind, we've refreshed our tone of voice guidelines, making sure they're in line with our values, but still very much based on a plain English approach. The feedback has been great; a relative of one customer said the only reason they were contacting us was because the arrears letter we'd sent was so friendly and supportive compared to other more formal letters they'd received.

Claire Goss
Marketing Communications Specialist



**Society**

MAKING A DIFFERENCE

Our people

96%

of our people are proud to
work at Paragon*

15.9 years

average length of service
for our executive
management team

**INVESTORS
IN PEOPLE®**

Platinum employer



We employ over 1,400 people across our sites around the UK, who work together to help our customers achieve their ambitions.

The future of our business depends on our brilliant people – they drive our success and deliver exceptional and sustainable service to our customers.

That's why we're committed to attracting, developing and retaining a diverse workforce representative of both our customers and the communities in which we operate. Equally, we're determined that our working environment should support every employee and be a place where they feel confident and able to reach their full potential.

We have a strong culture at Paragon – it's something we're very proud of. Alongside our values, it guides our decision-making to ensure we're doing business in a responsible and sustainable way.

*based on a survey of new starters after completing their probationary periods



Recruiting and retaining the right people

Our people really matter and that's why we take so much pride and care in building our team. Our selection and recruitment processes focus on people who represent and reflect our purpose, culture and values, and are aligned to our strategic priorities.

We offer a wide range of valuable benefits as part of our strategy to build a diverse and high-quality workforce capable of delivering the best customer outcomes while also fulfilling their own potential:

- ✓ generous annual leave with birthdays off as a bonus, plus an option to buy and sell holiday
- ✓ annual profit related pay
- ✓ Sharesave schemes
- ✓ highly competitive pension contributions and access to pensions advice
- ✓ tax-efficient and environmentally-friendly Green Car and Cycle-to-Work schemes
- ✓ access to a range of local and national discounts



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

Hybrid working remains a permanent arrangement across all our offices, providing our people with a better work-life balance and a flexible approach to working patterns, while still ensuring the collaboration that comes with face-to-face interactions.

It's important that we recognise and reward outstanding employee contributions; those performances are highly valued and we acknowledge them through a variety of awards:

- length of service milestones every five years of service, including travel vouchers and sabbaticals
- annual Employee of the Year and Team of the Year awards to reward outstanding performances
- peer-based nominations for our people when they go above and beyond in their dealings with customers and each other

How our new starters describe Paragon

Welcoming
Professional
Supportive
Trusting **Inclusive**
Respectful **Fair**

9.3 years

average length of service for employees

9.1%

voluntary employee turnover in 2024

4.4 days

average training per employee in 2024

Sharesave scheme

We operate a Sharesave scheme which enables employees to benefit from the performance of the business, while encouraging personal saving and financial security.

This year, 474 employees applied to take part in the 2024 Sharesave scheme, and around 64% of our people are currently taking part in one or more Sharesave schemes.

In December 2020, all employees (except for Executive Committee members and their Director/Head of direct reports) received a grant for £1,000 worth of Paragon shares (pro-rated for part-time employees).

This was a one-off award to recognise the effort so many had made during the exceptional pandemic year and to give employees an opportunity to share in the long-term success of the business. In December 2023, these shares became available to over 1,000 employees who were able to decide whether to sell the shares immediately or retain the shares. The value of the shares had increased by 20% since the award was made.



This year, we enhanced our policy on fertility treatment, following feedback from our People Forum (see page 40 to find out more about how they provide employee feedback to the business). It means employees and their partners who are undergoing treatment will be entitled to additional paid time off for appointments.



Developing talent

It's important to us that we support every person working at Paragon to develop their capabilities and to achieve their potential. Our structured approach to learning and development is key to this; as well as providing opportunities to help our employees perform well, it's part of our strategy to achieve the Group's objectives.

The support we provide is delivered across virtual, in-person and hybrid channels so everyone at Paragon – from those based at our Head Office through to our home workers – can access learning to support their current roles and future career aspirations.

During 2024, we rolled out Purpose and Performance Profiles across the Group, bringing an improved and balanced approach to objective setting.

As well as helping our people to set focused objectives, the approach has encouraged sustainable behaviours with an entire section dedicated to sustainability-related objectives.

THINK SUSTAINABILITY

To help their development, our people can choose from more than 6,500 online and e-learning resources through our learning management system.

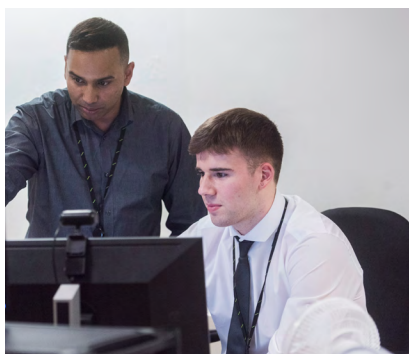
We also actively encourage our employees to complete both academic and professional qualifications that will support them in their roles or career aspirations. We pay 100% of course fees, including examinations fees, and we give time off for study leave. In addition, we pay associated costs such as professional subscriptions, and upon achieving successful results employees are rewarded with a bonus.

Early years support

Supporting our people at the early stages of their careers is important to us, so we provide a range of opportunities from work experience and placements to apprenticeships and undergraduate internships.

In 2023 we achieved Gold membership of the highly-regarded and prestigious 5% Club – a group of organisations which pledge their support to ongoing early career development. Since then, many apprentices have celebrated completing their apprenticeship journeys with us. There has been a rich variety of apprenticeship completions, ranging from Level 3 Business Administration Apprenticeships to Level 5 Coaching Professional Apprenticeships.

We're now rolling out an action plan to encourage more apprenticeships across the business, ensuring we maintain our Gold status.



Four of the Change team successfully completed the Improvement Practitioner Apprenticeship this year. It's helped them to build on their existing skills to share knowledge, tools and techniques with the wider team and it's resulted in practical changes as well as creating a mindset of continuous improvement.

Caroline Foster
Change Director



My Coaching Professional Apprenticeship involved a blended programme of study, training and assessments, leading to a final qualification from the Institute of Leadership and Management. It's been amazing to continue to develop my skills and knowledge, and to become an expert in my field. There have been lots of practical learnings that I've been able to use in the workplace.

Nichala Sawrey
Senior Development Consultant



I've enjoyed completing an apprenticeship alongside my role. I've been able to apply my learnings from the workshops to my work, which has massively improved my personal skills. What I have learnt has been so valuable, I think it's the best way to gain hands-on experience with off-the-job training. The earn-while-you-learn is also a bonus too.

Karis Capelin
PMO Administrator





From a school point [of view], we are located within an area of significant deprivation and many of our students do not have access to working role models, so having encounters with employers such as Paragon allows them to expand their knowledge and understanding of careers that are accessible to them. "

Careers Lead

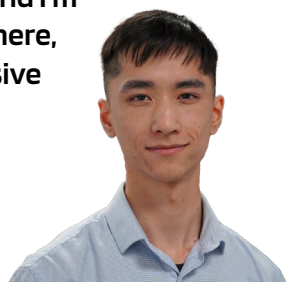
Colmers School and Sixth Form College, Birmingham



When I attended a careers day at Paragon, I was hoping to get some advice and guidance but got so much more! I met someone from IT who mentioned there was a vacancy for an apprentice in that team and I was encouraged to apply because I had some transferable qualifications and skills. I was successful and I'm now an IT Service Desk Apprentice. It's been an amazing journey for me and I'm thoroughly enjoying the experience here, particularly the welcoming and inclusive culture that's in place. "

Lee Abrar

IT Apprentice



Education outreach

In 2024, we developed our first-ever education outreach strategy, to help bridge the gap between education and employment, highlighting Paragon as an employer of choice, and enhancing the skillset of our people. The strategy focused on four key areas:

Gender:

schools with a higher percentage of girls to boys

Socio-economic background:

schools with a higher percentage of students eligible for free school meals

Under-represented groups:

schools with a higher proportion of students who speak English as an additional language

Location:

schools local to our Head Office

Over the course of the year, our employees – including many of our apprentices – volunteered their time to support students with careers fairs, mock interviews, insights days, talks and laptop donations.

During 2024, we also joined forces with Future First in a new partnership to help young people from disadvantaged and low-income backgrounds. Future First is a social mobility charity which connects young people from state schools and colleges with former students they can relate to. The partnership saw us host an event at our Head Office for students from King Edward VI Sheldon Heath Academy, with our volunteers helping students prepare for the world of work with presentations and financial literacy games. We also made a donation to the school to provide them with technology, tools and support to mobilise an alumni network.

In another first for Paragon, this year we joined a 'community parenting' initiative run by Solihull Council, to support young people who have been in the care system and who are now thinking about further education, job searches or housing applications. We also repurposed and donated laptops to support some of the most vulnerable young people on their journeys towards independence.



Ongoing development support

We help our people – regardless of the stage they're at in their career journey – to realise their full capabilities by offering a range of structured development programmes.

Ignite



Following its launch in 2023, our second cohort of employees joined Ignite, a mentoring programme focused on supporting the development and career progression of individuals in under-represented groups. The programme is aimed at employees who also want to sharpen their skillsets, grow their networks and breakdown barriers in the workplace.

High Potential Programme

In 2024, our third and fourth cohorts of employees completed the High Potential Programme, bringing the total number of employees to come through the programme to 50. The next cohort of employees is being lined up to take part in the programme in 2025. Focusing on developing skills which can be applied to any role in the business through workshops, feedback, insights and activities, the programme is aimed at employees who show potential in more specialist, non-managerial roles.

30% Club Mission Gender Equity and Mission Include mentoring

For the sixth year, Paragon worked with the 30% Club to support the career development of women and under-represented groups. In 2024, 12 Paragon employees were involved with cross-company mentoring partnerships, all with the aim of increasing representation of minority groups at board level. Over the six years, a total of 77 employees have participated in these mentoring partnerships.



We all have different experiences and it's been quite humbling to learn from the other Ignite delegates from different areas of the business. Each session is designed to strengthen our skillsets, based around various challenges we might encounter as we go through our careers. We've been able to undertake various activities such as Insights, 360 Feedback and Strength Finders. This helps us understand the way we are as individuals and utilise this knowledge.

Jamie Moore

Development Consultant



Equality, diversity and Inclusion

Equality, diversity and inclusion are important elements of our people strategy. We believe the diversity of our Board, directors, managers and employees should reflect the diversity of the communities in which we operate.

In 2024, we refreshed and relaunched our EDI strategy. After lots of progressive activity at Paragon this strategy sets out clear targets and formalises our focus on three key areas to help us achieve our vision:

- Attracting, developing and retaining diverse representation across the Group with particular emphasis on gender, ethnicity and socio-economic background
- Developing and embedding our inclusive culture through awareness initiatives and programmes
- Collecting and monitoring our data to assess the impact of strategic EDI initiatives across the wider organisation, enabling action to be taken where necessary

We also re-ran our This Is Me campaign in 2024 and 81% of our people have now completed their diversity profiles, up from 76% in 2023. In addition, our onboarding process has now been updated and our new employees are asked to share their diversity profiles when joining Paragon.

During the year, we also turned our attention to addressing the challenges presented by a lack of socio-economic diversity in the financial services sector. In 2024, through our involvement with Progress Together, we supported the launch of the Accelerated Progress Programme pilot. In collaboration with Coventry Building Society, Nationwide Building Society and Yorkshire Building Society, this year-long, cross-company mentoring scheme is designed to develop and unlock the potential of high performing middle managers from lower socio-economic backgrounds. Four mentors and four mentees from Paragon are involved, to help achieve greater social mobility.

This year, our 'Expectant Parent Guide' has been updated to 'Parenthood Pathways' and supports our EDI strategy for inclusivity.



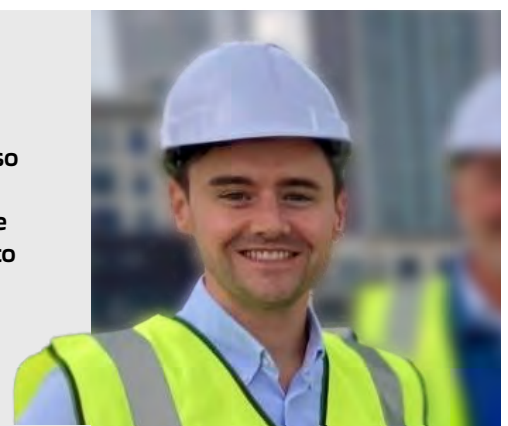
Paragon is an accredited Disability Confident employer, underlining our commitment to inclusion and diversity as core values in the workplace, and recognising the support we provide to assist everybody in gaining and staying in employment.



Being involved with the High Potential Programme has helped my development, such as fine-tuning my presentation skills, to keep progressing my career and work towards the next promotion. It's also allowed me to develop my network of contacts across other office locations and departments. Having members of Paragon's Executive Committee involved with the programme was also a bonus, thanks to their feedback and general insight.

Joshua Mann

Senior Portfolio Manager, Development Finance



Our EDI Network

Our EDI Network was launched in 2020, to change perceptions and break down barriers by raising awareness and understanding of equality, diversity and inclusion in the workplace. In 2024, the network was instrumental in celebrating diversity through events such as Black History Month and Pride.

In 2024, Ben Whibley, our Chief Risk Officer, became Paragon's Executive Sponsor for Equality, Diversity and Inclusion.



Gender pay gap

Our 2024 gender pay measures were similar to those for 2023 and remain larger than we'd like them to be. 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.

	April 2024	April 2023
Median	31.0%	33.5%
Mean	36.4%	35.0%

Equal opportunities

We believe all employees should be able to work in an environment free from discrimination, harassment and bullying. All employees, along with job applicants, customers, retailers, 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. More information can be found in our [EDI policy](#).

Gender diversity

We are proud to be a signatory of HM Treasury's Women in Finance Charter, a pledge for gender balance across the financial services sector. The Charter requires signatories to set a target for female representation in senior management. We are proud that we met the initial target for 35% female representation in senior management positions by January 2022 and have now revised our target to achieve 40% by December 2025.



Further details can be found in our latest [Gender Pay Gap Report](#).

Parker Review

In response to the Parker Review, we have set ourselves a target that at least 5% of all senior management will be from an ethnic minority by December 2027.

Women in Finance Charter		
	Target	September 2024
Women represented in senior management	40% by December 2025	37.9%
Women in the workforce	50.0%	51.3%

This year we appointed Louisa Sedgwick as Managing Director - Mortgages, which also saw her join Paragon's Executive Committee





Employee wellbeing

The wellbeing of our employees is one of our main priorities at Paragon. We care about all our people and we want to support their physical, emotional, financial and social wellbeing. We all need extra support from time to time and people should never be afraid to reach out and ask for help.

That's why we have a group of employees who form our Wellbeing team. They are all trained Mental Health First Aiders who volunteer their time to promote a proactive culture of wellbeing at Paragon and support their fellow employees.

In 2024, our Mental Health First Aiders undertook specialist trauma training to support colleagues affected by traumatic events.

Our Chief People Officer, Anne Barnett (right), is our Executive Sponsor for wellbeing and under her leadership, with the support of our volunteer wellbeing team, we continue to offer lunch-and-learn sessions, ongoing training, a wellbeing room at our Head Office and breastfeeding facilities.

These initiatives are in addition to our existing wellbeing provision, which includes:

- a wellbeing hub on our intranet
- access to the Vitality at Work programme
- free fitness classes at our offices
- weekly fresh fruit deliveries
- complimentary sanitary products
- flu vaccinations for those not eligible through the NHS



Employee voice

We recognise and understand the importance of keeping our people informed about our progress, and hearing back from them too, so we have a wide range of initiatives in place to encourage and deepen that engagement.

Our People Forum has been in place for more than 16 years and comprises 20 people from across every business area to ensure everyone at Paragon is represented.

It meets every two months and its purpose is to facilitate communication and disseminate information across the Group. As well as enabling employees to be consulted and provide their feedback, it is also one of the primary ways for our Executive Committee and Board to understand the views of our people.

The People Forum met six times this year, with non-executive directors Hugo Tudor, Tanvi Davda, Zoe Howorth and Graeme Yorston attending meetings. Topics for discussion ranged from remuneration and charitable activities to objective setting and car sharing. One of the People Forum's major highlights was its role in updating our fertility policy (see page 35 for more details on this).

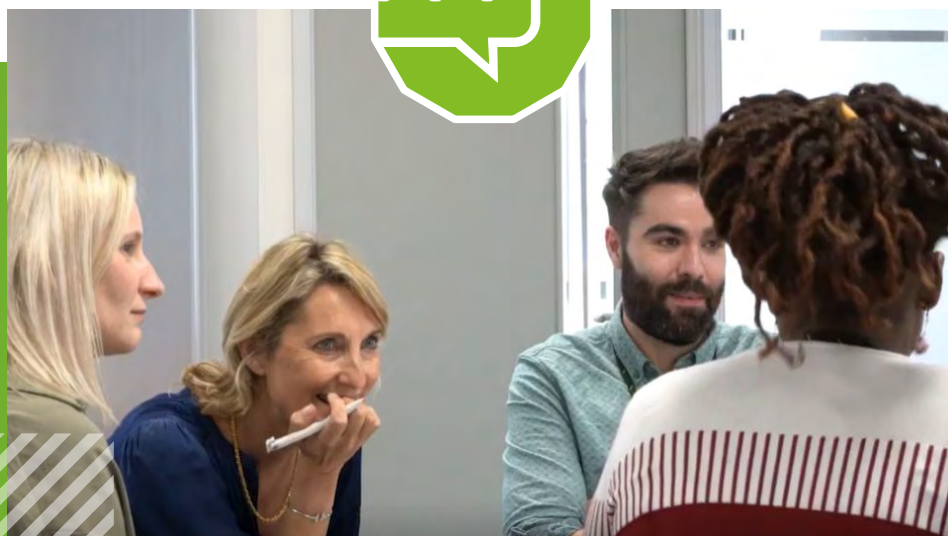
Focus areas

40% female representation at senior leadership by 31 December 2025

5% senior management ethnicity by 2027

Increase the number of people in 'earn and learn' positions to achieve Gold membership of the 5% Club by 2027

Introduce diversity-focused employee surveys to further build our understanding of our inclusive culture



**Society**

MAKING A DIFFERENCE

Our communities

460

employee
volunteering days

£48,000+

raised for Molly Ollys,
our Charity of the Year

£40,000+

donated to good causes
across the UK

We aim to be a valuable contributor to the communities in which we operate. Although 2024 was another challenging year for many, with charities and good causes needing more support than ever, our people have continued to step up again with incredible fundraising and volunteering efforts.

Charity

Charity of the Year

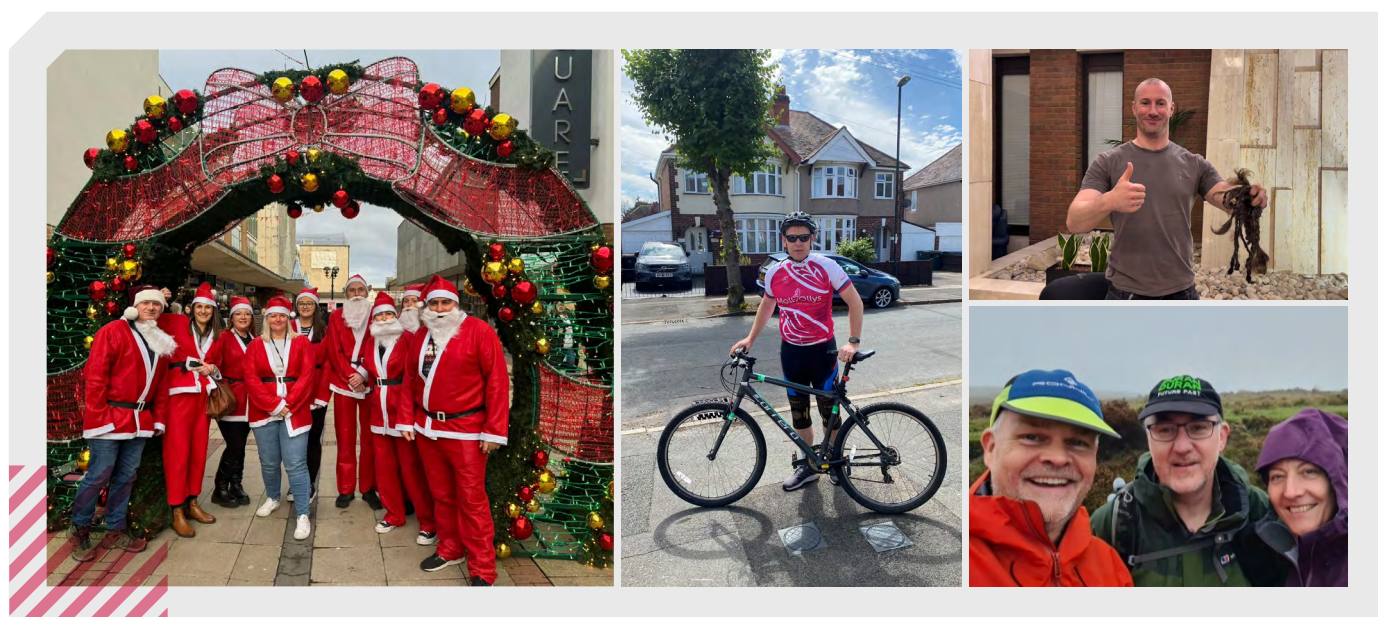
Our enthusiastic and committed people play a huge part in raising money for those in need. Each year, they choose a Charity of the Year to support, and our fabulous Charity Committee, made up of employee volunteers, organises a host of activities to raise funds. This has the added benefit of bringing our people together, supporting our values and contributing to our culture.

In 2024, our Charity of the Year was Molly Ollys, which supports children

with life-threatening illnesses, and their families. Their support includes fulfilling wishes by providing gifts to individual children, donating therapeutic toys and bespoke projects such as funding a paediatric palliative care consultant and furnishing a palliative care facility. The charity also runs support events for families of seriously ill children.

Our people joined forces to take part in a variety of fundraising activities for Molly Ollys including climbing the Yorkshire Three Peaks, sponsored walks, completing triathlons, dashing around as Santas and shaving heads! Between them they raised an astonishing £48,000.

This year, some of our people also used their paid volunteering session to support our Charity of the Year; members of our customer support team undertook a mammoth data entry exercise for Molly Ollys, saving them the cost of employing temporary administration staff.



The Big Paragon Charity Quiz

This Group-wide fundraiser saw 100 employees from across the business form teams and compete against each other.

In total, the event raised a phenomenal **£4,500** towards our overall total for Molly Ollys.





Supporting good causes

In 2024, Paragon donated more than £40,000 to dozens of different charities and community groups across the UK. Beneficiaries included Down's Syndrome Association, Sunny Days Children's Fund, Lupus UK, The Superhero Series, Myton Hospice and Brent Lodge Wildlife Hospital, as well as many local sports clubs and community groups. During Pride month the Group encouraged fundraising for LGBTQ+ affiliated charities with one of the beneficiaries being Birmingham LGBT.



**BIRMINGHAM
LGBT**

Give As You Earn

In addition, we operate a Give As You Earn scheme where employees donate money directly from their pre-tax pay to any UK registered charity or good cause of their choice, meaning beneficiaries receive at least 20% more than the employee's donation. In 2024, employee contributions totalled just under £15,000, which was then matched by Paragon.

Volunteering

Every employee at Paragon is encouraged to undertake one paid volunteering session each year to support projects which make a positive difference in our local communities. Our volunteering sessions focus on three key areas:

- supporting people who are experiencing poverty
- strengthening the education of school children and young people
- improving the local environment

In 2024 we achieved 460 volunteering sessions.

Projects that benefited included SIFA Fireside, St Basils, The Canal and River Trust, Thrive and Newlife. Our people also spent time volunteering with food banks, hospices, residential homes, schools and community gardens.



Last Christmas, our people donated festive-themed goodies to fill 50 hampers and gift boxes for 50 families to enjoy over the Christmas period. Donations included soft toys, luxury gifts, toiletries and food items.



This year, we also started a volunteering partnership with EcoBirmingham, a charity with a mission to give the people of Birmingham the tools they need to take positive environmental action and live more sustainable lives.

Focus areas

Raise £35,000 for Guide Dogs, our employee-nominated Charity of the Year in 2025

Support our employees to undertake 450 volunteering sessions during 2025



Governance

BEING A RESPONSIBLE BUSINESS

Being a responsible business requires honest and proper conduct, strong and fair stakeholder relationships, and a governance structure that stands up to scrutiny.

For us, it's about more than just meeting our legal requirements, which is why we actively promote good practice on a range of important issues and work closely with our suppliers and partners to help them do the same.

Doing the right thing is embedded in how we do business and achieve the highest standards of integrity and professionalism.



Governance

**Paragon Banking Group PLC
Board**

Paragon Chief Executive

**Executive Performance
Committee**

Sustainability Committee

Working Groups

Role and oversight of the Board

The Board oversees the Group's strategic approach, including our sustainability strategy. It reviews how sustainability is embedded into the Group's culture and in turn whether our culture is aligned with our purpose, values and strategy.

The Board delegates certain responsibilities to Board committees and receives regular updates on progress. Through interaction and oversight, for example via regular Chief Executive's reports and detailed briefings, the Board acts to promote the long-term sustainable success of the Group for the benefit of its members having due regard. This includes to employees' interests, supplier and customer relationships, and the impact of Paragon's operations on the community and environment. More detailed information regarding governance is available in our Annual Report and Accounts.

In 2024, members of our Board, including Robert East, our Chair, took part in our materiality assessment exercise, providing input on the sustainability matters they considered most significant to Paragon. Following this exercise, the Board considered an update on our progress with ESG, including external confirmation that Paragon was taking the appropriate action to further its sustainability strategy. For example, it confirmed that Paragon's emissions balance sheet was produced in the appropriate manner, with the right financial information included in current disclosures, and our pathways assessment was in line with good practice.

Executive Performance Committee

The Executive Performance Committee (ExCo) is the senior management committee responsible for sustainability. It oversees the approach and delegates the responsibility for day-to-day management to the Sustainability Committee.

Sustainability Committee

Our Sustainability Committee is a dedicated sustainability governance function, reporting to our ExCo and Board on a regular basis. Chaired by our External Relations Director, it comprises senior membership from across the business including the Managing Directors of our three principal business areas.

It has a broad ESG remit and its purpose is to deliver a coordinated approach to sustainability matters, with primary oversight of climate change risk, which is one of the Group's principal risks. Its duties also include oversight of sustainability commitments and disclosures, risk management in respect of climate change risk and sustainability, and the Green Bond Framework.

In 2024, we carried out an internal review of the Sustainability Committee, ensuring that the membership and responsibilities of the committee continued to be appropriate and well-positioned to deliver the Group's sustainability strategy.

Dedicated working groups report to the Sustainability Committee with remits relating to operational footprint, financed emissions and opportunities, and social and governance issues.

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

Enterprise Risk Management Framework (ERMF)

The Group's ERMF is designed to enable management to identify and focus attention on the risks most significant to its objectives. It ensures that we have a consistent approach to identify and manage risks, meaning we protect and create value for all our stakeholders. Whilst we consider sustainability related risks in our ERMF we also continue to widen the scope to consider other areas of sustainability.

Three lines of defence

Our three lines of defence structure provides clear oversight and ownership of climate change risk and our sustainability strategy across the business.

1st line

Each business area, with the support of the sustainability team, is responsible for the development and maintenance of an effective control environment and the implementation of our sustainability strategy.

2nd line

The risk and compliance teams are responsible for the ownership and management of the ERMF and supporting frameworks as well as challenging the approach to climate change scenario analysis. Second line risk committees review how the risks of climate change may impact their specialist risk areas.

3rd line

The internal audit function independently assesses the adequacy and effectiveness of climate change risk and mitigating controls.



The Board has structured oversight of sustainability issues. At Board meetings we ensure sustainability is aligned with our purpose and strategy, and support the Group's commitment to 'doing the right thing' that is embedded in all we do at Paragon. "

Barbara Ridpath

Non-executive Director



Our approach to managing climate change risk

Climate change is designated as a principal risk, with information and measures on climate change risk and broader sustainability issues considered at Board level, and prioritised as part of our governance and decision-making process.

Each month, the Board is updated via the Chief Executive's report, providing oversight of climate-related matters and on the Group's climate change commitments and measures in relation to our operational footprint and financed emissions.

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

Transitional risks

Transitional risk refers to the risks related to transitioning to a low carbon economy which could impact asset values or the cost of doing business. It can materialise through regulatory or government pressures, or technology developments, which aim to reduce environmental impacts.

Physical risks

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

Our key climate change related risks

During our climate change risk assessment, we evaluated the risks and opportunities and determined their relevance and significance based on their potential impact on the business. The assessment found that our exposure to the financial risks of climate change remains low.

Energy efficiency (or EPC) risk and flood risk across our mortgage asset class continues to be the focus of the assessment due to the size of the portfolio, the availability of data and the longer asset lifetime which potentially increases climate related risks.

Energy inefficiency and high EPC risk

As the economy transitions to net zero, properties are expected to become more energy efficient and powered by low carbon energy. EPC ratings are currently



the best available measure to assess the energy efficiency of properties across the mortgage portfolio. We continue to see positive momentum in EPC grade migration across our portfolio, shifting to more energy efficient property stock, largely driven by product initiatives. Over the last year 53.4% of new buy-to-let completions had an EPC rating of A–C, which is higher than both the live portfolio as well as redemptions throughout the year.

Current UK Government policy requires properties in the private-rented sector (PRS) to have EPC ratings of E or better. The timings and impact of future changes to policy remain uncertain but we continue to be well placed to support our customers on their journey to net zero.

We also continue to offer incentives and support our customers who wish to purchase more energy efficient properties and offer products such as our further advance and refurb-to-let products for those looking to improve properties throughout their term.

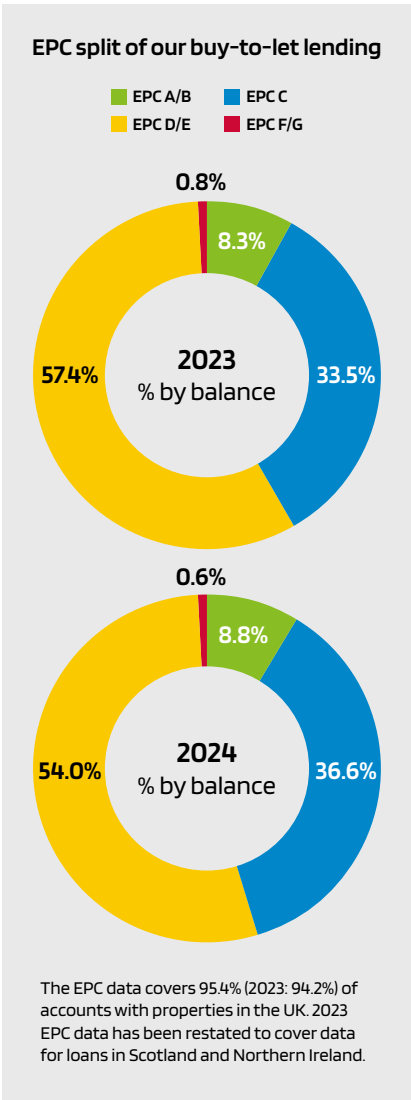
Flood risk

Flood risk is considered the most material of the physical risks across the business and our assessment is focused on the risk caused by inland, surface, river and coastal flooding across the mortgage portfolio.

Our analysis indicates that only a small proportion (3.1%) of properties in our mortgage portfolio are located within high-risk zones. Follow-up assessments performed on a sample basis by our in-house surveyor team concluded that

the properties were not considered at risk and that underwriting controls focused on mitigating flood risk were appropriate and robust. The Group is yet to experience a loss attributable to flooding and our customers are required to have valid property insurance in place throughout the duration of the loan.

As well as addressing the current flood risk, the assessment also included a projection of the potential future flood risk up to 2080 under a high physical risk climate scenario. Although an increase in risk was projected over the period, the increase was not considered to be substantial.





Climate change scenario analysis

Our climate change scenario analysis was split into two elements. First, we performed a qualitative review of our climate change risk and opportunities by business area to enable a broader view of how risks are mitigated and how opportunities are captured where material.

The review focused on aligning shorter-term risks with the residual life of assets across the portfolio. The review received business-wide input and did not identify any significant vulnerabilities or gaps in opportunities being captured.

The second element involved a quantitative assessment across the mortgage and motor finance portfolios. Across mortgages, the impact of increasing regulation and policy across EPC ratings in the PRS, was assessed in combination with stressed macroeconomics from the updated Network for Greening the Financial System (NGFS) scenario library.

Across motor finance, the residual values of internal combustion engine vehicles were stressed using the scenario assumptions in the Climate Biennial Exploratory Scenario (CBES). Neither assessment indicated a material impact to asset values or impairments.

Climate change scenario analysis continues to improve our understanding of the key climate change risk drivers, the potential impact they could have on the business and the mitigating options available. The latest scenario analysis has not identified any material vulnerabilities to business processes.

Executive remuneration

Elements of ESG form part of the long-term incentive plan awards for senior managers, reflecting the broad emphasis of the Group's overall sustainability strategy.

A risk metric was introduced in 2016, with people and customer metrics following in 2020, while climate metrics were introduced in 2022. This will be vesting for the first time in 2024/2025 and its outcomes will be reported on in the 2025 Annual Report and Accounts.

This metric, together with the other strands of the ESG condition, were reviewed in 2024. During the financial year ending September 2025, the triennial review of the Executive

Directors' remuneration policy will be undertaken and the structure of the long-term incentive plan will form part of the discussions with stakeholders to ensure the conditions and targets remain stretching and relevant.

Our customer-focused culture, which includes ensuring good customer outcomes, forms a regular objective in the annual bonus targets for the Chief Executive, Chief Financial Officer and other members of our Executive Committee. Our Chief Financial Officer's objectives also reference climate change as he holds the Senior Management Function responsibility for the financial risks related to climate change.



Tanvi Davda, Non-executive Director and Chair of Remuneration Committee

ESG Resource Hub

In 2024, we launched our [ESG Resource Hub](#), a one-stop, online collection of links to important information, policies and statements relating to environmental, social and governance issues, some of which are highlighted in this section.

The ESG Resource Hub is also where we disclose our latest ESG ratings. We regularly engage with ratings agencies and participate in surveys and assessments but as the ESG ratings agency landscape continues to evolve, we are currently most actively engaged with CDP, ISS, MSCI and Sustainalytics.



Employee Code of Conduct

We refreshed 'Doing the right things: Our Code of Conduct' again in 2024, with 100% of employees confirming they had read and understood the updated version. This code outlines the high standards of behaviour we expect from everyone at Paragon. [Click here](#) to find out more.

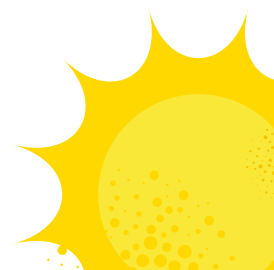
Learning together

The nature of the financial services sector means all our people need to understand the different rules and regulations that must be adhered to. Therefore, all employees undertake structured learning throughout the year, covering topics ranging from financial crime to whistleblowing. During 2024, 19 modules were completed, with an average completion rate of 99.87%.

Additionally, following the introduction of a more strategic and balanced approach to objective setting, our employees adopt objectives in the areas that are fundamental to our business success – including sustainability.

Resilience and business continuity

Our established financial, operational resilience and business continuity frameworks are designed to ensure we continue to support our customers in the event of unexpected business disruption. The financial resilience framework considers the safety and soundness of the business. The operational resilience and business continuity frameworks focus on understanding and safeguarding critical business processes and being able to continue delivering our key customer services at acceptable, pre-defined levels. The Business Continuity Framework is certified to ISO22301:2019.





Financial crime

We make protecting our business and our customers against financial crime, including bribery and corruption, a priority. To make sure Paragon isn't used to facilitate financial crime, we have a framework which includes a business-wide risk assessment, policies, procedures and robust controls in place, helping mitigate against risks and protecting our customers, employees and the Bank.

Our Money Laundering Reporting Officer (MLRO) is responsible for Paragon's financial crime framework and our Board and relevant governance committees oversee our work to prevent financial crime. Our Chief Executive Officer is assigned as the Board member with responsibility for anti-money laundering related matters.

We're focused on ensuring continuous improvement in the Group's capability to combat the risks of financial crime. Significant work has been undertaken to ensure that regulatory expectations in respect of anti-money laundering and wider financial crime control frameworks are met. This is a continuous process, and we are proactively involved with various industry intelligence forums to ensure we stay ahead of emerging risks.

Our membership of these partnerships helps us to improve our systems and controls, and help Paragon to better support our customers through education to raise their awareness of financial crime. This includes signposting to organisations including Action Fraud, Take Five Stop Fraud and Victim Support. We also invest in training our employees to help them spot potential financial crime related activity, and our suite of financial crime learning modules is refreshed and rolled out on an annual basis with a 100% completion rate.

Supplier relationships

We are committed to the fair treatment of all suppliers, who are essential to keeping our business running and ensuring we meet the needs of our customers. In return we expect our suppliers to help deliver a high standard of service to our customers and to act responsibly, as set out in our Supplier Code of Conduct.

2024 saw us continue to invest in and utilise a digital supplier platform, giving us an automated control capability to centralise, understand and manage suppliers, allowing us to work more closely with them to support their sustainability journeys.

During the year, we also re-issued sustainability-focused questionnaires to our Group Property and critical suppliers, helping us build an ongoing picture of the supplier landscape against our requirements and highlighting areas where our suppliers may need our support. These questionnaires are also now issued to new suppliers as part of our onboarding process.

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.

Project Management Office

In 2024, we embedded an additional level of scrutiny to our project management processes whereby sustainability impact is now considered as part of an initial scoring exercise to determine both risks and opportunities.

These impacts are not limited to climate change; they also include environmental, social and governance topics.

Bribery and corruption

We follow the requirements of the Bribery Act 2010 and maintain a comprehensive internal anti-bribery and corruption policy, covering all employees operating across the entire Group.



Health and safety

The health and safety of our employees is important. We are compliant with all applicable legal requirements and maintain a Health and Safety Risk Policy which applies to all Paragon employees. We have 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. Our Group Occupational Health and Safety Management System is certified to ISO45001:2018 and compliance is audited bi-annually by a UK Accreditation Service accredited auditor. [Click here](#) to learn more.

Cyber security and data protection

We understand that our customers are concerned about ongoing cyber threats, which continue to pose a significant risk to the financial services sectors. As such, we continue to invest in software and services to strengthen our defence and depth against potential attacks, protecting our critical systems from the ever-evolving landscape of cyber threats. This year we have also further utilised AI (artificial intelligence) and machine learning to provide another layer of protection and security.

The protection of data is another ongoing concern for customers. We understand our responsibility to protect this and have a dedicated Data Protection Office (DPO), supported by a team of qualified privacy specialists to drive good practice within Paragon's established data framework. A team of accountable Data Custodians and a network of Data Representatives are in place across the Group, to uphold our rigorous Data Protection Risk Policy and its supporting standards. Additionally, Comprehensive Data Protection Impact Assessments (DPIAs) are conducted for all high risk activities including involvement and oversight of all strategic level projects.

Our information security systems and policies are aligned with good industry practice and are certified to the international standard ISO27001. We have annual mandatory cyber security and data protection training in place across the Group, with additional bespoke training in place for high-risk business areas.





Taxation

All our taxable income arises in the UK and our tax strategy complies with all relevant tax obligations and co-operates with tax authorities. [Click here](#) to read our annual tax strategy.

Whistleblowing

We have an established, internal whistleblowing policy which is overseen by our Board. This includes a confidential advice line operated by Protect, a third party charity, as well as a focused Whistleblowing Group of senior management, with our Whistleblowing Champion, Alison Morris, Non-executive Director, being a member. The members of this group are responsible for ensuring the impartial, fair and robust investigation of all disclosures, as well as protecting all whistleblowers.

Sensitive sectors

In considering sectors where we believe the purpose of the financing is mis-aligned with our sustainability strategy, we have identified the following highest risk sectors where we prohibit direct lending:

- Extraction or mining of coal (below or above ground)
- Extraction of oil and gas (including Arctic and ultra-deep water)
- Adult entertainment services
- Organisations whose activity leads to the detriment of animal welfare
- Gambling and betting activities
- Manufacturing or supply of firearms, weapons or ammunition*
- Political organisation activities
- Forestry, where the lending is for non-sustainable purposes
- Production (farming and manufacture) of tobacco

Businesses that provide support services to these sectors, such as labour supply, equipment, transport, technical and professional services, are not excluded from direct lending.

Human rights

Paragon operates exclusively in the UK and, as such, we are subject to the European Convention on Human Rights and the UK Human Rights Act 1998. 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. This particularly relates to employment, equality and diversity, treating customers fairly, and information security. [Click here](#) to read more about our approach to Human Rights.

Modern slavery and human trafficking

We support the objectives of the Modern Slavery Act 2015 and are committed to making sure there is no slavery, servitude, forced or compulsory labour or human trafficking in any part of our operations or our supply chain. [Click here](#) to read our Modern Slavery and Human Trafficking Statement.

Collective bargaining / trade associations

None of our employees are party to a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced any labour-related interruptions of operations.

Focus areas

Further utilise our understanding of supplier information to support our decision-making around procurement

*Paragon will lend to businesses that supply into the global defence sector, subject to being satisfied that these businesses hold all necessary permissions to operate in this sector. We will also lend to businesses that manufacture or sell firearms for sporting use, or for personal ownership, providing all required licensing is held.





To find out more about our
approach to sustainability
and doing the right thing,
[visit our website.](#)