

Paragon Banking Group PLC

Type of Engagement: Annual Review

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Introduction

In March 2021, Paragon Banking Group PLC (“Paragon” or the “Group”) issued a green bond¹ aimed at financing loans expected to increase the energy efficiency of residential buildings in the UK. In 2023, Paragon engaged Sustainalytics to review the assets financed through the issued 2021 green bond as of 31 March 2023 and provide an assessment as to whether they met the use of proceeds criteria and the reporting commitments outlined in the Paragon Green Bond Framework² (the “Framework”). Sustainalytics has provided a Second-Party Opinion on the Framework in March 2021.³ This is Sustainalytics’ second annual review of Paragon’s green bond, following the earlier review in 2022.⁴

Evaluation Criteria

Sustainalytics evaluated the assets financed with proceeds from the 2021 green bond as of 31 March 2023 on whether they:

1. Met the use of proceeds and eligibility criteria defined in the Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Framework.

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators
Green Buildings	Green Residential Real Estate: new or existing residential buildings belonging to the top 15% low carbon buildings in the region, including buildings certified, or to be certified, with an Energy Performance Certificate (EPC) label “A” or “B” in England and Wales.	<ul style="list-style-type: none"> • Breakdown of the Eligible Green Loan Portfolio by EPC band • Estimated ex-ante annual avoided emissions (tCO₂e/year) • Estimated average annual CO₂ emission intensity (kgCO₂e/m²/year) • Estimated annual carbon emissions avoided per every GBP 1 million of proceeds allocated (tCO₂e/year/£1m)

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

² Paragon Banking Group PLC, “Green Bond Framework”, (2021), at: <https://www.paragonbankinggroup.co.uk/resources/paragon-group/documents/green-bond/paragongreenbondframeworkmarch2021>

³ Sustainalytics, “Second-Party Opinion – Paragon Green Bond Framework”, at: <https://www.paragonbankinggroup.co.uk/resources/paragon-group/documents/green-bond/paragongreenbondframeworksecondpartyopinion>

⁴ Sustainalytics, “Paragon Annual Review”, (2022), at: [https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/paragon/paragon-annual-review-\(2022\)/paragon-annual-review-\(2022\)](https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/paragon/paragon-annual-review-(2022)/paragon-annual-review-(2022))

Issuer’s Responsibility

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

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from Paragon’s green bond. The work undertaken as part of this engagement included collection of documentation from Paragon and review of said documentation to assess conformance with the Paragon Green Bond Framework.

Sustainalytics relied on the information and the facts presented by Paragon. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by Paragon.

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

Conclusion

Based on the limited assurance procedures conducted,⁵ nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed assets do not conform with the use of proceeds criteria and reporting commitments in the Framework. Paragon has disclosed to Sustainalytics that the proceeds from the green bond totaling at GBP 150 million were fully allocated as of 31 March 2023.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the assets financed with proceeds from the 2021 green bond to determine if they aligned with the use of proceeds criteria outlined in the Framework.	All assets reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the assets financed with proceeds from the 2021 green bond to determine if impact of assets was reported in line with the KPIs outlined in the Framework.	All assets reviewed reported on at least one KPI per use of proceeds category.	None

⁵ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the funded projects, including description of projects, their estimated and realized costs and impact, as provided by the issuing entity, which is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendices

Appendix 1: Allocation and impact reporting by eligibility criteria

On 25 March 2021, Paragon issued a green bond with proceeds of GBP 150 million. The green bond proceeds were fully allocated as at 31 March 2023. Sustainalytics notes that 100% of the proceeds were used to finance newly originated buy-to-let mortgages. The table below provides a detailed breakdown of the allocation of proceeds.

Table 3: Eligible green loan portfolio

Use of Proceeds Category	Eligibility criteria	Number of loans	Allocation (in GBP million)	Percentage by balance (in %)
Green Buildings	EPC Label "A"	18	5.2	3.4
	EPC Label "B"	453	145.3	96.6
	Total	471	150.5	100

Table 4: Geographic distribution of green loans

Geographic area	Percentage of loans distributed
South East	36.8%
Greater London	24.6%
South West	11.7%
West Midlands	6.9%
North West	5.1%
East Anglia	4.9%
East Midlands	4.7%
Yorkshire and the Humber	3.8%
Wales	0.9%
North	0.6%

Table 5: Environmental impact reporting overview⁶

Indicator	Value
Number of loans	471
Sum of allocated eligible green loans (in million pounds)	150.5
Baseline emission intensity (in kgCO ₂ e/m ² /year) ⁷	41.77
Estimated average annual CO ₂ emission intensity (in kgCO ₂ e/m ² /year)	11.78
Estimated ex-ante annual avoided emissions (in tCO ₂ e/year)	1,083.35
Estimated annual CO ₂ avoided per every GBP 1 million of proceeds allocated (in tCO ₂ e/year/£1m)	7.20

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

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

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

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