PARAGON BANKING GROUP PLC
Trading update

CONTINUED NEW BUSINESS MOMENTUM

Paragon Banking Group PLC ("the Group" or "Paragon") today publishes its trading update based upon the business performance from 1 October 2020 to 31 December 2020.

Despite ongoing Covid-related uncertainties, the Group's trading performance has been in line with the Board's expectations for the first quarter of its 2020/21 financial year.

Nigel Terrington, Chief Executive, said:

"We have made an encouraging start to the year. Good momentum in new business flows has led to strong growth in the pipelines, particularly for buy-to-let and development finance. Notwithstanding the economic environment, the Group's loan portfolios have continued to demonstrate the quality of our underwriting with low levels of arrears. With strong capital ratios and high levels of liquidity, we are well positioned to face the challenges and opportunities ahead".

Operational and financial highlights

The Group has continued to demonstrate resilience, supporting customers and protecting its people, its capital and the long-term value of the organisation during the quarter. The efficiency of the Group's working from home capabilities, established during the Spring 2020 lockdown, has ensured a seamless transition to management of subsequent lockdowns as the pandemic has developed, with strong service standards being maintained throughout.

Specialist buy-to-let volumes have remained robust during the first quarter of the year, reaching £298.7 million. Although this represents a £110.8 million reduction when compared to Q1 2020, it largely reflects the lagged impacts of the first lockdown on our pipeline and market wide challenges facing the execution of housing transactions. Total advances during the first quarter stood at £521.8 million (£304.1 million mortgage advances, £217.7 million commercial advances), down from £684.9 million at Q1 2020. Net loan balances grew to £12.67 billion at the end of the period.

The buy-to-let pipeline at the end of the quarter stood at £966.8 million, £152.8 million above Q1 2020. The pipeline is expected to convert at a faster rate over the coming quarter, given the concentration of completions arising from the stamp duty changes which impact from the end of March 2021. Redemptions reduced by 21.5% to £169.2 million, continuing to reduce and remaining below historical averages.

Commercial lending volumes remain strong at £217.7 million with growth being led by development finance, where advances in the first quarter are ahead of those seen during the first quarter of 2020 and where the new business pipeline is strong. SME lending has shown growth from the final quarter of 2020, aided by a further £13.6 million of lending as part of the CBILS and BBLS schemes, but remains below the levels seen pre-Covid-19.

Credit performance and payment holiday updates

The Group's IFRS9 models were updated for the potential economic implications of a third lockdown, with our prudent provisioning overlays maintained during the period. Arrears levels were broadly similar to those reported at 30 September 2020 (buy-to-let 3-month plus arrears standing at 15bp compared to 14bp in December 2019) and all portfolios continue to show improved behavioural scores when compared to their December 2019 position.

The take up of new payment holidays remains low. Payment holidays have been given on approximately £2.6 billion of balances since March 2020, but as at 31 December 2020, the remaining balance stood at £104.6 million, of which £93.4 million represented extensions due to mature over the coming few months. The Group continues to maintain a close dialogue with affected customers, both directly and through its extensive customer insight assessments.

Capital and funding

Deposit balances increased to £8.6 billion in the period. The portfolio average deposit rate at the end of December was 1.22% compared to the 1.34% reported at the end of September 2020.

During the quarter, the Group completed its PM28 securitisation. The notes were fully retained and will be used to support collateral requirements for future TFSME drawings. The Group has continued to draw on the TFSME and has made its first TFS repayments, the balances on each being £1,245.0 million and £609.4 million respectively at the quarter end.

In December, the Group called its PM15 legacy securitisation. A feature of this legacy structure was a swap position to support floating rate notes denominated in foreign currency. Whilst the notes were effectively hedged to sterling, the resulting fair value position underpinned a capital requirement that disappeared when the deal was refinanced, reducing risk weights and further enhancing the Group's quarter-end capital position.

At the end of December 2020, and after an accrual towards potential future dividends, the Group's unverified CET1 and total capital ratios remained strong at 15.1% and 17.3% respectively (14.6% and 16.8% on a fully loaded basis).

The Group continues to engage with the PRA on Paragon's IRB application, with Phase 2 of the process underway.

Guidance and outlook

Whilst the full economic effect of Covid-19 remains uncertain, the Group's performance during the first quarter has been encouraging and the Board's expectations on volumes and net interest margin remain unchanged.

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Paragon is expected to release its half-year results for the six months to 31 March 2021 on Tuesday 8 June 2021.