PARAGON BANKING GROUP PLC
Trading update

Paragon Banking Group PLC ("the Group" or "Paragon") today publishes its trading update based upon the business performance from 1 October 2020 to 30 June 2021.

Financial and operational highlights

The Group has continued to trade strongly in its third quarter. Key operational activity for the nine months to June 2021 is detailed below, including a comparison with the results to June 2019, representing the last period unaffected by Covid-19.

	YTD '21	YTD '20	Change %	YTD '19
Mortgage advances	**£1,210.0m**	£1,034.0m	+17.0%	£1,189.9m
Commercial advances	**£712.3m**	£619.4m	+15.0%	£709.4m
Total advances	**£1,922.3m**	£1,653.4m	+16.3%	£1,899.3m
BTL pipeline	**£911.4m**	£651.3m	+39.9%	£732.7m
Development Finance pipeline	**£386.0m**	£195.7m	+97.2%	£183.1m
Net loans	**£13.09bn**	£12.60bn	+3.9%	£11.99bn

Year to date new business volumes exceeded their equivalent levels in 2020, supported by a strong quarter's trading that generated new advances of £485.4 million in the Mortgages division and a further £310.6 million in Commercial Lending, representing the Group's busiest new advances quarter for over a decade. Aggregate new lending totalled £796.0 million in the quarter to June 2021, compared to £589.1 million in the same quarter in 2018, £610.1 million in 2019 and £379.3 million in 2020.

Despite the strong level of new business in the period, the buy-to-let pipeline has been broadly maintained at its March 2021 level. At £911.4 million, the pipeline had grown by 39.9% from its June 2020 level. Application volumes have remained strong in July despite the phasing out of the stamp duty holiday.

Redemptions within the buy-to-let portfolio have risen marginally during the third quarter, reflecting the heightened levels of market-wide transactions. The annualised rate for the quarter stood at 7.7%, compared to 5.3% in the lockdown-affected 2020 third quarter and 6.8% reported for the first half of 2021. The rate for the third quarter in 2019 was 8.4%.

New activity in the Commercial Lending division has also maintained the momentum reported at the Interim. In addition to the strong completion flows across the division, the pipeline in the development finance business showed further progress, totalling £386.0 million at the end of June compared to £318.4 million at 31 March 2021.

The Group's net loan book increased to £13.1 billion at the quarter end, up 3.9% from June last year and by 2.2% during the quarter.

Credit performance

The Group continues to use the Multiple Economic Scenarios and scenario weightings established at the time of the 2021 interim results. The underlying modelled impairment charge for the quarter has been better than expected, driven in large part by continued strong UK house price performance. This strong house price environment has seen the average LTV on the BTL book fall to 61.7% at the end of the quarter. The behavioural scores of the Group's portfolios continue to improve, maintaining the trend performance reported with the interim results.

Capital and funding

The Group's deposit balances rose to £9.1 billion at the end of June. The portfolio average savings rate at the end of June was 0.97% compared to the 1.08% reported at the end of March 2021 and 1.34% at 30 September 2020.

During the quarter, the Group refinanced its final two legacy securitisations. PM13 and PM14 comprised loan balances of £1.3 billion, and a further £153 million of swap fair values as at March 2021 were removed from the balance sheet as a result.

The Group completed £6.3 million of its planned £40 million share buyback during June. Having accounted for this reduction in capital resources, reflected management accounting profits for the quarter and accrued for 50% of the anticipated final dividend, the Group's unverified CET1 and total capital ratios stood at 16.1% and 18.3% respectively (15.6% and 17.9% on a fully loaded basis).

The Group continues to engage with the PRA on its IRB application following the delivery of our Phase 2 materials for the buy-to-let rating system earlier in the year.

Guidance and outlook

The strong trading performance for the latest quarter has supported our continued expectation for volumes in the Mortgages division to be above £1.5 billion and for the Commercial Lending division to generate advances of over £900 million for the year to September 2021. Our costs guidance remains unchanged and given further progress during the quarter we still expect the Group's net interest margin for the year to exceed 235 basis points.

The Group's assessment of its impairment models and associated overlays will be undertaken with the preliminary results announcement, scheduled for 7 December 2021. At this stage it is too early to give any guidance on the outcomes from this analysis, which will reflect the prevailing portfolio performance and macro outlook but we note the current modelled outputs and portfolio performance are favourable when compared to the Board's expectations at the half year.

Nigel Terrington, Chief Executive, said:

"These results demonstrate a continuation of the strong momentum we have in the business. The high level of new originations in the current operating environment is testament to the resilience, capabilities and efficiency of our business model and people. We are excited about the prospects for the Group which build from the specialist understanding of our markets and customers and our strong capital foundations."

<u>**For further information, please contact:**</u>

Paragon Banking Group PLC
Nigel Terrington, Chief Executive
Richard Woodman, Chief Financial Officer

Tel: 0121 712 3161

Headland
Lucy Legh / Del Jones
paragon@headlandconsultancy.com

Tel: 020 3805 4822

Paragon will be releasing its full-year results for the twelve months to 30 September 2021 on Tuesday 7 December 2021.