

PARAGON BANKING GROUP PLC
Trading update

STRONG PERFORMANCE AND RE-CONFIRMED GUIDANCE

Paragon Banking Group PLC (“the Group” or “Paragon”) today publishes its trading update based on the business performance from 1 October 2021 to 30 June 2022.

Financial and operational highlights

The Group has delivered another strong performance over the quarter in line with the Board’s expectations with continued momentum in lending volumes, improved margins and an exemplary credit performance. Consequently, we re-confirm our guidance for the full year.

	YTD 2022	YTD 2021	Change %
Total advances	£2.2bn	£1.9bn	+16.7%
- Mortgage Lending advances	£1.3bn	£1.2bn	+7.5%
- Commercial Lending advances	£0.9bn	£0.7bn	+32.3%
Buy-to-let pipeline	£1.3bn	£0.9bn	+46.2%
Development finance pipeline	£0.7bn	£0.7bn	0.0%
Net loans	£14.0bn	£13.1bn	+7.2%

New business volumes were strong in both divisions, with Mortgage Lending outstripping the 2021 result which benefitted from the stamp duty boost, and an excellent performance across our Commercial Lending division. The Group continues to see strong pipelines, supporting origination expectations for the final quarter of 2022 and into the new financial year.

We have seen good levels of success with our customer retention strategies. The annualised redemption rate for the buy-to-let portfolio stands at 7.8% for the year-to-date, which compares favourably to pre-Covid levels (10.3% for 2018 and 8.6% for 2019).

Consequently, the rate of growth in the loan book was 7.2% in the year to 30 June 2022 and would have been higher still but for the disposal of a portfolio of Idem Capital loans during the quarter.

Good progress has been made with our digitalisation programme, delivering an improved customer experience and enabling costs to remain in line with the previous guidance provided.

Credit performance

Credit performance remains exemplary across each of the Group’s portfolios with no evidence of deterioration around any of the portfolios, despite the uncertain macroeconomic outlook. At 15 basis points, the three-month plus arrears metric on the buy-to-let portfolio compares favourably to the 28 basis points reported at Q3 2021. Loan to value ratios continue to improve, with the weighted average reducing to 57.6% at the quarter end. However, we are conscious that economic conditions are becoming increasingly challenging. The Group’s balance sheet is strong and we stand ready to support our customers should the need arise.

Capital and funding

The Group's deposit balance exceeded £10 billion for the first time in June, with £10.1 billion at the quarter end. Against the background of rising rates, the portfolio deposit rate stood at 1.19% for June, up 28 basis points since September 2021, contributing to a widening of margins.

The Group had completed 55% of the £75 million 2022 share buy-back by the quarter end, leaving a further £33.8 million to be acquired during the remainder of the year.

Paragon's unverified capital ratios were 15.9% for CET1 and 18.0% for TCR at the quarter end, with the increases since the half-year results reflecting the benefits from the Idem Capital portfolio sale on portfolio risk weights and underlying earnings progression. These figures compare to 16.1% and 18.3% at Q3 2021 respectively.

The Group continues to engage with the PRA in respect of its IRB application.

Guidance and outlook

The Group re-confirms the guidance given at the half-year results for its 2022 full year outturn:

Mortgage Lending advances	£1.8 billion +
Commercial Lending advances	£1.2 billion +
Operating costs	Low £150 millions
NIM increase	20bp +

Nigel Terrington, Chief Executive, said:

"Paragon has delivered another strong performance, with continued momentum in new business flows and improving margins driving robust revenue growth, whilst maintaining a tight cost focus. With strong levels of capital and an exemplary credit performance, we are well positioned to deal with any economic weakness that emerges. We continue to deliver against our strategy to the benefit of all our stakeholders and are particularly excited about the benefits our digitalisation programme will create."

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Paragon will be releasing its full-year results for the twelve months to 30 September 2022 on Tuesday 6 December 2022.