

RNS ANNOUNCEMENT

27 January 2023

PARAGON BANKING GROUP PLC
Trading Update
POSITIVE START TO FINANCIAL YEAR – NIM GUIDANCE INCREASED

Paragon Banking Group PLC, the UK specialist bank, (“the Group” or “Paragon”) today publishes its trading update based on the business performance from 1 October to 31 December 2022.

Nigel Terrington, Chief Executive, said:

“The strength of the Group’s performance in a quarter of extreme volatility for the banking sector is testament to the resilience of Paragon’s business model, our focus on and deep knowledge of the specialist markets in which we operate, our experience and our prudent approach to managing the business. Clearly, the economic backdrop remains uncertain, but our financial year has started well with good loan book growth and net interest margins running at levels above expectations. We remain confident in the guidance given for the full year and our strong capital levels mean we are well-positioned to continue to deliver excellent returns for our shareholders and further support our customers.”

Operational and financial highlights

Strong conversions from the new lending pipeline resulted in total new lending for the quarter to 31 December 2022 increasing by 21.7% to £861.7 million from £708.0 million in Q1 2022, delivering a confident start to the current year.

The volume of new buy-to-let mortgage advances increased by 44.7% to £591.1 million when compared to the £408.5 million reported for Q1 2022, with a continued focus on lending to professional landlords. The mini budget in October, which was hugely disruptive to new business flows, together with strong conversion levels, reduced the pipeline to £748 million at the period end (Q1 2022: £1,027.1 million). Completions for the second quarter are therefore expected to be below the first quarter levels. However, once the market stabilised, new business flows have been encouraging and are supporting the replenishment of the pipeline with high quality lending at low LTVs with landlord affordability remaining strong.

The Group’s Commercial Lending volumes remained high at £270.6 million but moderated slightly from the strong position in the first quarter last year (Q1 2022: £298.8 million). Whilst drawdown levels in the development finance business remain robust, as expected, slower new enquiries have reduced the pipeline. This trend is expected to continue for the next quarter at least, mirroring the national picture being seen by the bigger housebuilders.

The loan book grew by 5.4% to £14.4 billion in the twelve months to 31 December 2022 and net interest margins ran at levels above expectations over the first quarter.

The Group updates the economic scenarios, weightings and overlay considerations that feed into its impairment assessments with its half-year results, so no change to the economic forecasts have been made during the quarter. However, the Group’s high quality loan portfolios continue to perform resiliently.

Capital and funding

We continued to grow deposit balances which were £11.2 billion at the end of the quarter. The Group's funding costs have increased as base rates and swap rates have risen compared to the equivalent period last year, which has also supported the widening of margins alongside the Group's structural change in business mix.

After accruing for half of the assumed interim dividend, but excluding the remaining element of the announced 2023 share buy-back, the Group's unverified CET1 and total capital ratios remained strong at 16.1% and 18.1% respectively (15.6% and 17.7% on a fully loaded basis) at 31 December 2022.

The Group continues to make good progress with the PRA on its buy-to-let IRB application with Phase 2 feedback currently being reflected in model enhancements.

Guidance and outlook

The Board's FY23 guidance for new business flows, operating costs and RoTE remain unchanged, and net interest margin growth guidance is being increased by 5bps to +25bps.

For further information, please contact

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Paragon is expected to release its half-year results for the six months to 31 March 2023 on Tuesday 6 June 2023.