PARAGON BANKING GROUP PLC
Trading update

Strong progress towards 2019 objectives

Paragon Banking Group PLC (“the Group” or “Paragon”) today publishes its trading update based upon its business performance for the nine months to 30 June 2019.

Nigel Terrington, Chief Executive said:

“*Strong new business growth and margin improvements have been delivered in line with our expectations and we are well placed to deliver our 2019 objectives. Our recent residual sale of a legacy portfolio and associated share buy-back demonstrates our ability to re-cycle capital, optimise capital and improve return on equity, whilst maintaining a prudent and robust capital base*.”

Operational highlights

The business continues to operate in line with the Board’s expectations. Operational highlights include:

- Strong new lending – £1.90 billion year-to-date (2018: £1.58 billion same period in 2018)
  - Mortgages £1.19 billion (2018: £1.13 billion)
  - Commercial Lending £0.71 billion (2018: £0.45 billion)
- Annualised buy-to-let redemptions 8.6% (2018: 10.7%)
- Net interest margin continues to improve
- Deposit balances over £6 billion at five-year anniversary

New business flows remained stable during the last quarter, with the buy-to-let pipeline rising from £711 million reported at 31 March 2019 to £733 million at 30 June 2019.

Buy-to-let completions continue to focus on the professional market, with 89% of year-to-date completions being complex in nature, compared to 76% in 2018.

Paragon’s portfolio and predictive behavioural score analysis continue to demonstrate no deterioration or emerging signs of stress in the credit performance of the Group’s loan books. Nevertheless, given ongoing political and economic uncertainties, appropriate precautionary preparations have been made and a tight risk appetite will be maintained.

Capital and funding

Deposit balances rose to £6.1 billion by the end of June and continue to be accessed at attractive rates broadly in line with the first half.

Immediately after the quarter end, the Group completed its first SONIA-based securitisation, PM26, with the sale of £364 million of AAA notes at S+105bp, delivering attractively priced fully swapped funding costs. A further £274 million of senior and junior notes were retained by the Group.

The Group also completed its first residual sale during June. The sale of the residual interest in one of the Group's legacy securitisations removed approximately £0.9 billion of assets from the Group's balance sheet and generated a one-off gain of approximately £9 million. If the transaction had completed at 31 March 2019, the Group's CET1 reported at the half-year would have been 14.7% compared to the 13.7% reported. The capital released by this residual sale has been allocated, in part, to a share buy-back of up to £30 million.

The Group's preparations for IRB authorisation are well advanced.

Guidance and outlook

Lending volume guidance remains unchanged, with full year volumes in the Mortgages division still anticipated to be approximately £1.6 billion and Commercial Lending volumes expected to exceed £0.9 billion.

The Group expects its net interest margin for the full-year in 2019 to be above the 2.24% level reported in its half-year results. Paragon reported a net interest margin of 2.19% in 2018.

When the Group announced the residual disposal, it disclosed that there would be an exceptional gain of £9 million in the year, and that the current year operating profits, as a consequence, would reduce by approximately £2 million due to the transaction, with the impact rising to £6 million for the full year in 2020.

Paragon will be releasing its full-year results for the twelve months to 30 September 2019 on Tuesday 26 November 2019.

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

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