

**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 2019 to 30 June 2020.**

The Group reported its half year results to 31 March 2020 on 10 June. Consequently, there is a relatively short period of time between that communication and today’s update. Since 10 June the Group’s trading performance has been in line with the Board’s expectations.

**Operational highlights**

The Group has performed resiliently, supporting customers and protecting its people, its capital and the long-term value of the organisation during the quarter. Over 90% of our colleagues continue to work from home, where strong service standards have been delivered efficiently and effectively to existing customers and new applicants. Despite the ongoing macro uncertainties as a result of Covid-19 there are some encouraging signs of recovery in the economy and in the markets in which the Group trades. However, it is still early in this stage of the pandemic crisis and uncertainty will remain for some time to come.

Key operational activity for the nine months to June 2020 is detailed below.

	<b>YTD '20</b>	YTD '19	Change %
Mortgage advances	<b>£1,034.0m</b>	£1,189.9m	-13.1%
Commercial advances	<b>£619.4m</b>	£709.4m	-12.7%
<b>Total advances</b>	<b>£1,653.4m</b>	<b>£1,899.3m</b>	<b>-12.9%</b>
BTL pipeline	<b>£651.3m</b>	£732.7m	-11.1%
BTL redemptions	<b>6.9%</b>	8.6%	-1.7ppts
Net loans	<b>£12.60bn</b>	£11.99bn	+5.1%

The recovery in new business flows following the Covid-19 lockdown has been encouraging. The buy-to-let pipeline recovered from its low point of £598.7 million at the end of May to reach £651.3 million at the end of June and currently stands at over £700 million. In April, the Group made £48 million of offers in its buy-to-let division. By June, this had risen to £83 million and will exceed £100 million during July. A more detailed picture will be available at the financial year end as the pipeline of applications takes some time to convert to actual advances.

Redemption levels within the buy-to-let portfolio fell during the first half of 2020, a trend which continued into the third quarter, with the annualised rate for the year-to-date totalling 6.9%.

New activity in the Commercial Lending division has also seen improvements in recent weeks, with continued resilience and growth being seen in development finance and a stable position in SME lending. The Group achieved its CBILS and BBLS accreditation during June and had made £7.6 million of advances under those schemes by the end of the first month.

Strong rates of customer retention combined with improving new business flows resulted in the Group's net loan book increasing to £12.60 billion, up 5.1% from last year and by 0.7% during the quarter.

### **Credit performance and payment holiday updates**

Having assessed the economic environment and the performance of its loan book, the Group considers that the range of economic scenarios disclosed at the half year remain appropriate and therefore no additional overlays have been required for provisioning during the third quarter. The Group has not experienced any significant credit losses or made any material specific provisions during the quarter.

Just under 21% of the Group's loan balances have had a payment deferral at some stage as a result of Covid-19, of which, to date, around 75% have not requested any further support. However, the position remains a dynamic one with customers having the option to request a payment deferral up until the end of October 2020. The Group continues to liaise closely with customers who have sought an extension to better understand their circumstances and future intentions. 98% of the Group's loan book is secured.

### **Capital and funding**

Deposit balances rose to £7.6 billion at the end of June and pricing levels have continued to fall. The portfolio average rate at the end of June was 1.52% compared to the 1.74% reported at the end of March 2020 and 1.81% at 30 September 2019, which has mitigated, to some extent, the impact of the base rate reductions which were passed on to customers during the quarter.

During the quarter, the Group completed its PM27 securitisation. The notes were fully retained and will be used to support collateral requirements for future TFSME drawings. The Group made its first TFSME drawings in early July.

At the end of June 2020, the Group's unverified CET1 and total capital ratios remained strong at 14.6% and 16.8% respectively (14.2% and 16.4% on a fully loaded basis). These figures do not reflect the recent announcement made by the PRA in relation to transitional relief which is expected to be incorporated in the Group's year end capital disclosures.

The Group continues to engage with the PRA on Paragon's IRB application following the delivery of our Module 1 application for the buy-to-let rating system announced at the half year.

### **Guidance and outlook**

Despite the UK emerging from lockdown, the full economic effect of Covid-19 remains uncertain and it is therefore difficult to provide guidance for the year.

Given uncertainties arising from Covid-19, the Group did not declare an interim dividend. The appropriate level of dividend for the financial year as a whole will be considered before the results for the year are published, reflecting the results for the financial year and the prevailing market conditions and sentiment.

Nigel Terrington, Chief Executive, said:

“Our people and operations have shown considerable resilience, agility and adaptability during this difficult period. New business flows have picked-up from their April lows and with improving performance in customer payments no additional overlay provision has been required. There may well be further challenges to come from this crisis, which we are well placed to deal with. We have strong levels of capital and liquidity and are well placed to develop our core businesses as well as make the most of any potential opportunities that will arise in future.”

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**Paragon will be releasing its full-year results for the twelve months to 30 September 2020 on Thursday 3 December 2020.**