

PARAGON BANKING GROUP PLC
Trading update

**STRONG FINANCIAL AND OPERATIONAL PERFORMANCE FOR THE QUARTER,
FULL YEAR GUIDANCE RECONFIRMED**

Paragon Banking Group PLC (“the Group” or “Paragon”) today publishes its Q3 trading update based on the business performance from 1 October 2022 to 30 June 2023.

Nigel Terrington, Chief Executive, said:

“The Group has delivered another strong trading performance with robust new business flows, strong customer retention and good margins. We expect to deliver results for the year in line with expectations. This has been achieved despite continuing volatility in the financial markets and higher interest rates.

We have a strong balance sheet with a high quality customer base, reflected in the resilient nature of our loan portfolios’ credit performance.

We are well positioned and stand ready to support our customers in these challenging times and to continue to deliver strong returns for our shareholders.”

Financial and operational highlights

The Group continues to deliver strong performance, with volumes, margins and costs in line with our expectations, and we re-confirm our guidance for the full year.

	YTD 2023	YTD 2022	Change %
Total advances	£2.3bn	£2.2bn	+0.9%
- Mortgage Lending advances	£1.4bn	£1.3bn	+7.8%
- Commercial Lending advances	£0.9bn	£0.9bn	-8.7%
Net loans	£14.7bn	£14.0bn	+4.8%

New business levels in the two divisions remain in line with our expectations, albeit interest rate and swap volatility led to market disruption and reduced application flow in the quarter, slowing the rate of pipeline increases. Despite this, we remain comfortable with our guidance for the full year new advances out-turn in both divisions.

Although application flows have been disrupted, retention levels continue to improve as expected. Buy-to-let redemption levels fell further in Q3, taking the annualised rate of 10.7% reported at the interim to the current annualised rate of 9.4%.

The combination of new advances and strong retentions has resulted in the net loan book increasing by 4.8% since June 2022, to £14.7 billion.

Income recognition using the Effective Interest Rate (“EIR”) methodology has received heightened attention recently. At Paragon, EIR movements arising from customer behaviour and pricing changes are fully incorporated in our margin reporting, both historically and within any future guidance. The circa 300 basis point net interest margin expectation for FY2023 included at the interim and reconfirmed today fully reflects our latest views on all margin constituents, including the EIR element.

The Group's digitalisation initiatives continue at pace, with the launch of a portal for our existing buy-to-let customers delivering increased self-help options, better information access and enhancing customer relationship management. The next quarter sees more of a focus on internal infrastructure enhancements, with further progress in our cloud-first strategy and the delivery of even stronger operational resilience, before we move on with further customer and intermediary-facing enhancements during FY2024.

Credit performance

Mortgage LTVs remain low at 62.1%. As noted at the half-year results, we had seen some limited increases in 3 month+ arrears on the old, variable rate mortgage book. The 3 month+ measure stands at 28 basis points overall at the quarter end, remaining materially lower than the buy-to-let industry and the wider mortgage market as a whole. All other Group loan portfolios continue to demonstrate a strong credit performance.

Capital and funding

The Group's retail savings balances continued to grow in the quarter, standing at over £12.3 billion at the quarter end, up 21.6% year-on-year. The predominantly fixed term, FSCS protected, deposit book provides a stable and reliable basis of funding for the business.

By the end of June, the Group had completed £63.1 million of the £100 million 2023 share buy-back.

Our unverified capital ratios were 15.6% for CET1 and 17.5% for TCR at the quarter end (which reflects half of the assumed final dividend and the full £100 million buy-back for FY2023). These figures compare to 15.9% and 18.0% at Q3:2022 respectively.

Final preparations for the Group's updated Phase 2 IRB submissions are underway following extensive feedback from the PRA and the Group's associated enhancement and remediation work.

Guidance and outlook

The Group re-confirms the guidance given at the half-year results for the FY2023:

Mortgage Lending advances	£1.75-1.90 billion
Commercial Lending advances	£1.1-1.3 billion
Operating costs	Circa £170 million
NIM	Circa 300 basis points

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Paragon will be releasing its full year results for the twelve months to 30 September 2023 on Wednesday 6 December 2023.