PARAGON BANKING GROUP PLC
28 January 2019

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Trading update

Sustained lending growth

Paragon Banking Group PLC ("the Group" or "Paragon") today publishes its trading update based upon the business performance from 1 October 2018 to 31 December 2018.

Commenting on the update, Nigel Terrington, Chief Executive of Paragon, said:

"The Group has started the year well, delivering strong lending growth across all our core business areas. Our retail deposit base continues to grow, creating further efficiencies in our funding structure. We remain confident in the outlook, but will maintain our capital, liquidity and broader risk disciplines in case the external operating environment should deteriorate."

Highlights

- Strong lending – new business flows of £660 million, up 40.6%
- Buy-to-let pipeline remains strong, with focus on professional landlords
- Further progress in commercial lending, acquisitions delivering on growth potential
- Deposit balances now total £5.6 billion
- Guidance for 2019 performance remains unchanged

New business flows have been strong for the first quarter of 2019 and are summarised below.

£ million	Q1 2018	Q1 2019	*% change*
Buy-to-let	342.9	424.7	*+ 23.9 %*
Other mortgages	23.6	23.9	*+ 1.3 %*
Total Mortgages	**366.5**	**448.6**	***+ 22.4 %***
Asset finance	60.0	93.4	*+ 55.7 %*
Development finance	14.4	79.3	*+ 450.7 %*
Motor finance	28.9	36.0	*+ 24.6 %*
Structured lending	0.0	3.2	*n/a*
Total Commercial Lending	**103.3**	**211.9**	***+ 105.1 %***
Total new lending	**469.8**	**660.5**	***+ 40.6 %***

Mortgages

Lending volumes during the quarter reflect the strong opening pipeline level. Lending to complex landlords, including those operating through incorporated structures, continues to dominate new business flows. Professional landlord lending rose to 87.5% of completions from 66.7% in the same quarter the previous year.

The December buy-to-let pipeline stood at £729.1 million, which is 17.8% higher than at December 2017.

Buy-to-let redemption levels reduced during the quarter, totalling £227.0 million compared to £286.5 million for the same quarter last year. This represents an annualised rate of 8.9% (2018: 11.8%), with the reduction contributing to the growth in net loan balances.

Commercial Lending

Each product line within the Commercial Lending division showed strong growth levels, most notably the asset finance and development finance businesses. The development finance volumes reflect a full quarter of volumes from the Titlestone acquisition against a comparator which only reflected Paragon's existing business, the £79.3 million of new business written in the quarter was in line with the £320.8 million of new advances achieved by the combined Paragon and Titlestone teams in the year to September 2018. The asset finance volumes include £18.6 million from Iceberg (completed in December 2017). Like-for-like asset finance growth was 26.6%.

Idem Capital

The debt purchase market remained highly competitive in the quarter. While we continue to consider new deal flow, Idem Capital made no new investments in the quarter, maintaining its pricing and risk discipline.

Funding update

Paragon's deposit raising continues to form the foundation of its funding programme, with the value of outstanding deposits rising to £5.6 billion by the end of the quarter from £5.3 billion at the end of September.

Market developments have resulted in some modest price inflation within this area. With the portfolio average deposit cost increasing by three basis points from September 2018 to December 2018.

Further progress has been made refinancing the Group's securitisations with deposits. During the quarter three deals, PSF1, FF5 and PM21, were refinanced in this manner, refinancing £137 million of loans.

Credit quality

Paragon's portfolio metrics remain strong, with buy-to-let arrears levels of 9 basis points (December 2017: 9 basis points) and no evidence of consumer credit weakness being identified by the Group's behavioural score analysis. For the current year, the Group will be reporting bad debts using the IFRS9 methodology. The Group will update the markets on its transition adjustments ahead of the publication of its half-year results in May.

Balance sheet and capital

Compared to the year-end position, net loan balances increased by 1.6% in the first quarter of the new financial year, ending the period at just over £12.3 billion. Growth for the 12 months to December was 10.2%.

The Group's capital position remains strong, with its unaudited CET1 ratio increasing to 13.9% at 31 December 2018. This measure includes the benefits of the transitional relief basis following the introduction of IFRS9 in the current financial year.

The Group's IRB application process remains on track.

Outlook

The Group continues to see good progress in each of its business lines and reiterates the guidance given at the 2018 year-end for its 2019 performance.

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Paragon will be releasing its half-year results for the six months to 31 March 2019 on Wednesday 22 May 2019.