Paragon Banking Group PLC

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Financial Results

Six months to 31 March 2024








Mortgage Lending • Commercial Lending • Savings • A specialist banking group

Agenda

Financial overview

Richard Woodman, Chief Financial Officer

Strategy overview

Nigel Terrington, Chief Executive Officer

Conclusions

Strong operational and financial performance

Guidance reconfirmed or upgraded

Strong financial performance

- Underlying operating profit £146.3 million, +13.5%
- Underlying EPS +17.4%
- NIM 3.19%, +24bps
- Cost:income ratio 36.5%
- Underlying RoTE 20.8%
- Interim dividend 13.2p; DPS +20.0%

Good loan and deposit growth

- Strong recovery in activity levels
  - Buy-to-let pipeline up 47% v H2 2023
  - Development finance pipeline up 21% v H2 2023
- Net loan growth 4.8%
  - Mortgage Lending +4.0%
  - Commercial Lending +9.8%
- Deposit balances +24.4% year-on-year
- TFSME repayment accelerated

Strong capital

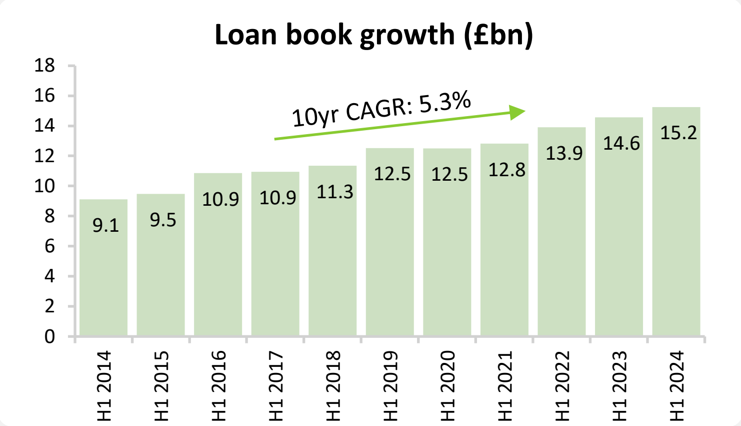
- CET1 14.7%
- Total Capital Ratio 16.6%
- 2024 buy-back extended to £100 million
- IRB continuing to progress

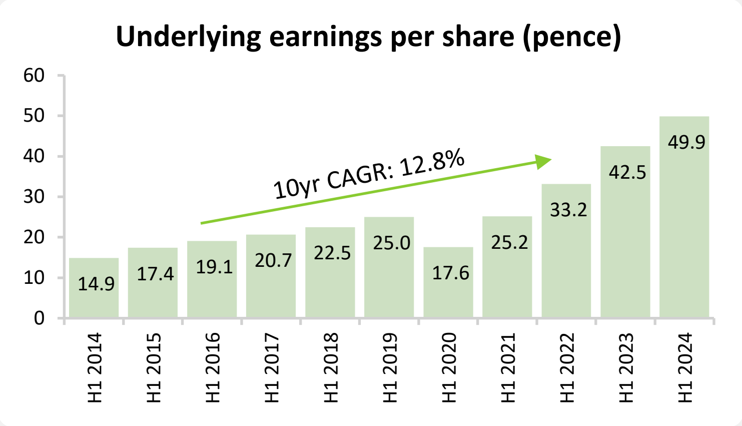
Our purpose is to support the ambitions of the people and businesses of the UK by delivering specialist financial services

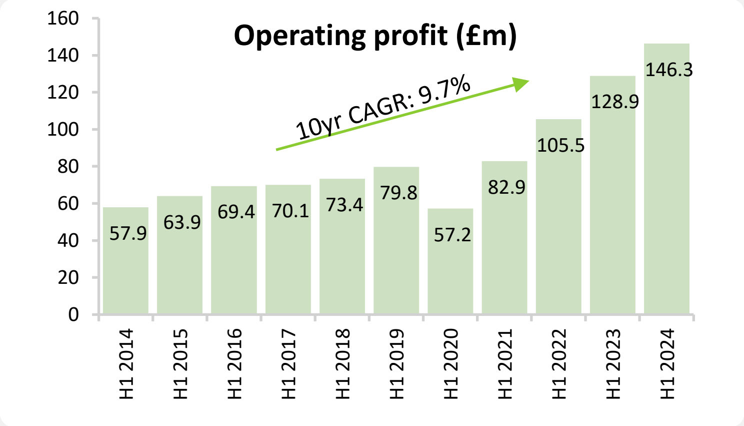
The 10-year view – consistent strategic delivery

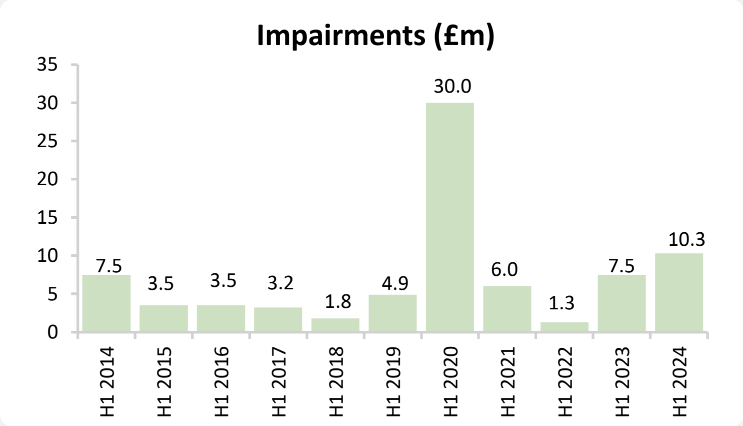
Trend growth in key financial metrics maintained in H1 2024

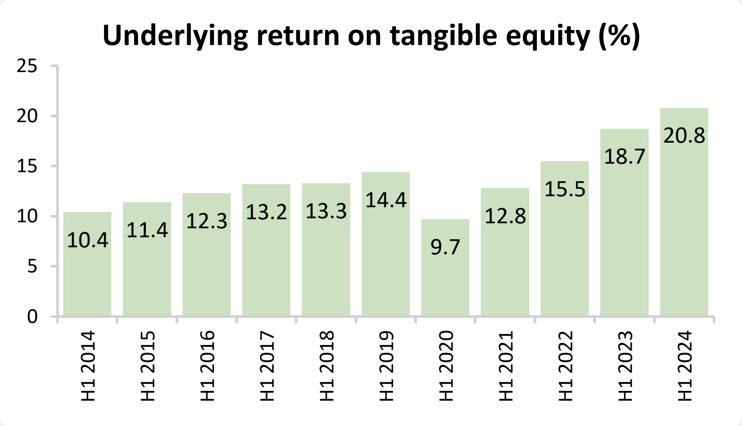
- Steady growth in loan book
- Strong growth in operating profit
- Enhanced by strong capital generation and distribution
- >£1 billion returned to shareholders, since 2015











Financial overview

Richard J Woodman
Chief Financial Officer

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Income statement

£ million	H1 2024	H1 2023	Change
Net interest income	239.9	212.4	+12.9%
Other income	6.7	7.8	(14.1%)
Total operating income	246.6	220.2	+12.0%
Operating expenses	(90.0)	(83.8)	+7.4%
Pre-provision profit	**156.6**	**136.4**	**+14.8%**
Impairments	(10.3)	(7.5)	+37.3%
Underlying operating profit	**146.3**	**128.9**	**+13.5%**
Fair value net gains / (losses)	(35.7)	(82.5)	
Profit before taxation	**110.6**	**46.4**	**+138.4%**
Reported earnings per share	**38.4p**	**16.4p**	**+134.1%**
Underlying earnings per share	**49.9p**	**42.5p**	**+17.4%**

Volumes and margins higher year-on-year

Reflects deposit growth, core inflation and BoE levy accrual

PMAs maintained

Smaller reversal

Profit growth enhanced by buy-backs

Segmental results

Strong overall performance offset in part by lower commercial NIM in higher rate environment

Underlying £ million	Mortgage Lending	Commercial Lending	Central	Total
Total operating income (H1 2024)	148.4	65.7	32.5	246.6
Change (v H1 2023)	+11.8	(6.4)	+21.0	+26.4
Operating expenses	(11.6)	(13.4)	(65.0)	(90.0)
Change (v H1 2023)	+0.7	(0.1)	(6.8)	(6.2)
Pre-provision profit	**136.8**	**52.3**	**(32.5)**	**156.6**
Change (v H1 2023)	+12.5	(6.5)	+14.2	+20.2
Provisions for losses	**(8.7)**	**(1.6)**		**(10.3)**
Change (v H1 2023)	(3.3)	+0.5		(2.8)
Underlying operating profit	**128.1**	**50.7**	**(32.5)**	**146.3**
Change (v H1 2023)	+9.2	(6.0)	+14.2	+17.4

Net interest margin

Strong H1 performance

- Smaller reduction in exit NIM than anticipated
- £1.2 billion net free reserve hedge completed, protecting NIM from falling BoE base rate
- Buy-to-let spreads remain robust
- Lower commercial lending spreads at high rates but at 5.88% remains a key driver to medium term structural NIM evolution
- Deposit margin remains favourable. Further tightening expected

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Deposit spreads

Deposit spread insight

- Deposit benefit tightened from year end
- Swapped cost of fixed rate bonds remains below SONIA but benefit reduced from YE23 position
- Similar but more material move on variable rates, reflecting tightening of funding beta post September 2023, with base rates stable across period
- Mix shifting to variable rates as switch-to-fix theme at market level slows
- £16.7 million reduction in annualised benefit would equate to around 11bp of NIM tightening for Group at flat asset-side spreads

	Mar-24	Sep-23
Fixed rate balances (£m)	8,435.9	8,681.2
Fixed rate inc. swap	5.10%	4.99%
Swapped fixed rate – SONIA	-0.09%	-0.20%
Volume weighted (£m)	**-7.6**	**-17.3**
Variable rate balances (£m)	6,312.7	4,571.0
Variable deposit rate	4.25%	3.74%
Variable rate – SONIA	-0.94%	-1.45%
Volume weighted (£m)	**-59.3**	**-66.3**
Annualised total benefit (£m)	**-66.9**	**-83.6**
% equivalent	**-0.45%**	**-0.63%**

SONIA at 5.19% for both periods

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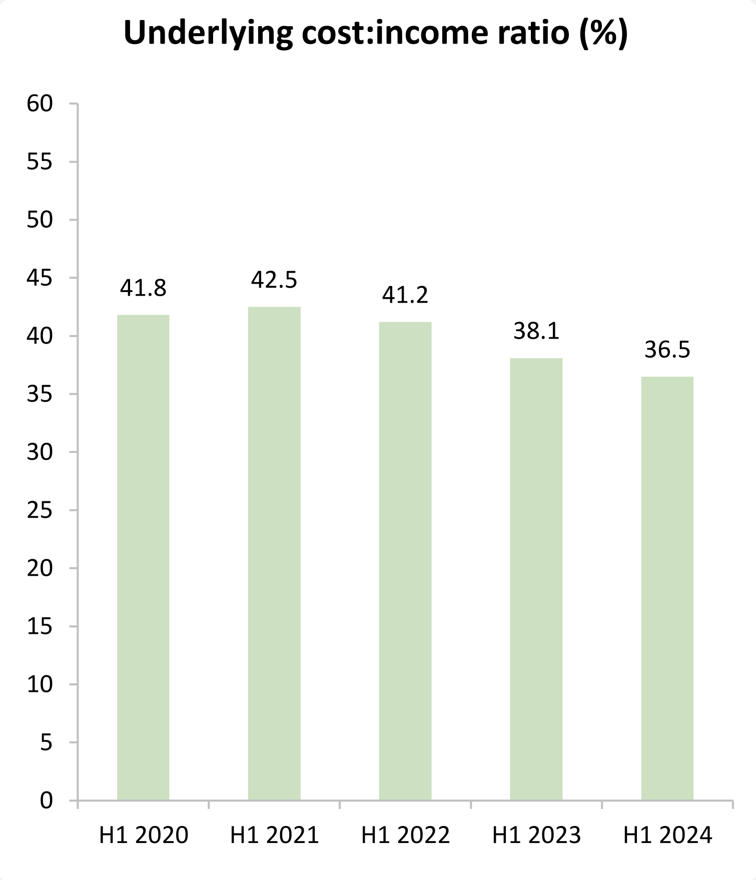
Operating expenses

Costs in line with expectations

- Better underlying performance offset by additional Bank of England levy cost (£1.7 million) – absorbed in these figures
- Continued focus on change programme and digitalisation
- Absolute costs also reflect cost of outsourced deposit management as balances grow
- Full year £180 million guidance maintained



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MES remain cautious

- Downside/severe mix held at 30/20
- Whilst GDP forecast for FY24 is lowered from original expectation, other key metrics improved
- 100% scenario weighting:
  - Releases £18.2 million in upside
  - Adds £28.6 million in severe case

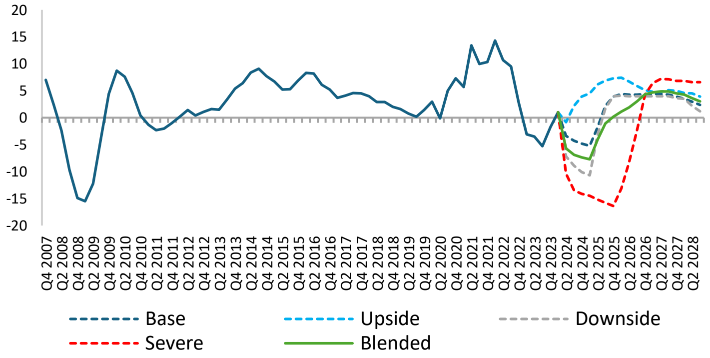
Scenarios

	Base	Upside	Downside	Severe
Weighting	40%	10%	30%	20%
Impact of 100% weighting	£69.0m	£59.9m	£79.0m	£106.7m
Variance to reported	(£9.1m)	(£18.2m)	+£0.9m	+£28.6m

2024 assumptions compared

Forecast for quarter ended 30-Sept-2024	H1:24 MES	2023 MES
GDP	(0.8%)	(0.6%)
CPI	3.1%	6.1%
Unemployment	5.0%	5.8%
House prices	(6.9%)	(9.4%)

House price change (%)



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Impairments

Overlays maintained, small increase in coverage ratio

- Main driver of coverage ratio is a greater number of receivership cases from legacy variable rate book
- Reflected in behavioural scores
- Cost of risk 14 basis points per annum
- LTVs remain low by historical standards

Impairment overlay

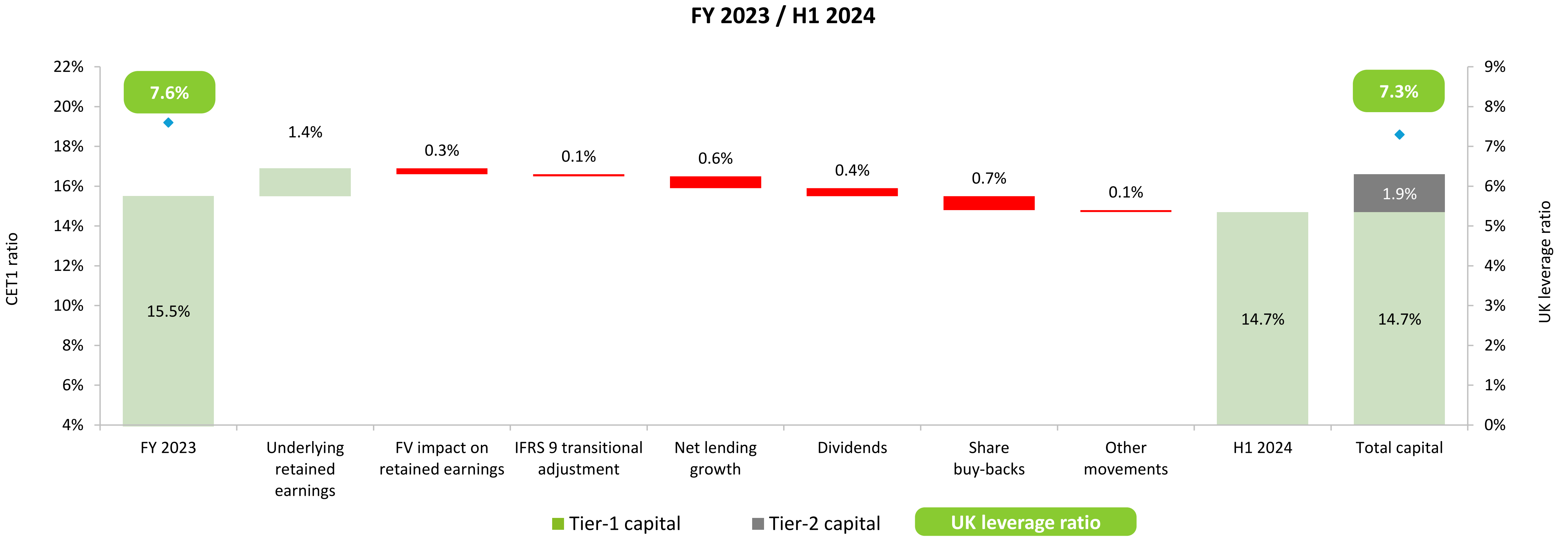
	FY 2021 (£m)	FY 2022 (£m)	FY 2023 (£m)	H1 2024 (£m)
Calculated provision	£46.0	£48.5	£67.1	£71.6
Judgmental overlay	£19.4	£15.0	£6.5	£6.5
Total	**£65.4**	**£63.5**	**£73.6**	**£78.1**
Coverage ratio	0.49%	0.44%	0.49%	0.51%
BTL portfolio LTV	61.2%	57.9%	62.8%	63.5%

	Transition weights no PMAs	H1 2024 weights no PMAs	H1 2024 weights full PMA
Central	40%	40%	40%
Upside	30%	10%	10%
Downside	25%	30%	30%
Severe	5%	20%	20%
Total provision	**£64.0m**	**£71.6m**	**£78.1m**
Coverage ratio	0.42%	0.47%	0.51%

Indexed credit behavioural scores by portfolio

	Mar-23	Mar-24
Buy-to-let		
New	100.0	100.2
Legacy	100.0	98.6
Second charge mortgages	100.0	100.0
Motor finance	100.0	100.7

Capital movements during the period



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Group capital

Balance sheet growth and distributions take CET1 to 14.7%

Capital ratios

- Average loan book risk weight at 45.2%
- Combination of growth and capital return remains
- Strong surplus to regulatory minimum

IRB

- Continued constructive engagement with PRA
- Focus remains on buy-to-let, with other asset classes on roll-out plan

Basel 3.1

- Basel 3.1 now expected post General Election
- Portfolio mix change reduces potential impact from CP to 2.1% of CET1 (2.3% H1 23)
- SME support factor element 0.2% of CET1

Group consolidated capital

Core Equity Tier-1 capital *	£1,174.9m
Tier-2 capital	£150.0m
Total capital resources	**£1,324.9m**
Credit risk	£7,196.7m
Operational risk	£740.2m
Market risk	-
Other	£37.8m
Total risk exposure	**£7,974.7m**
CET1 ratio *	14.7%
Total capital ratio (TCR) *	16.6%

Group consolidated leverage ratio

Tier-1 equity *	£1,174.9m
Leverage exposure **	£16,129.5m
UK leverage ratio *	7.3%

* Including IFRS 9 transitional relief of £3.3m, adjusted for dividends and subject to verification

** Excludes qualifying central bank claims in accordance with rule modification applied to UK Leverage Ratio Framework

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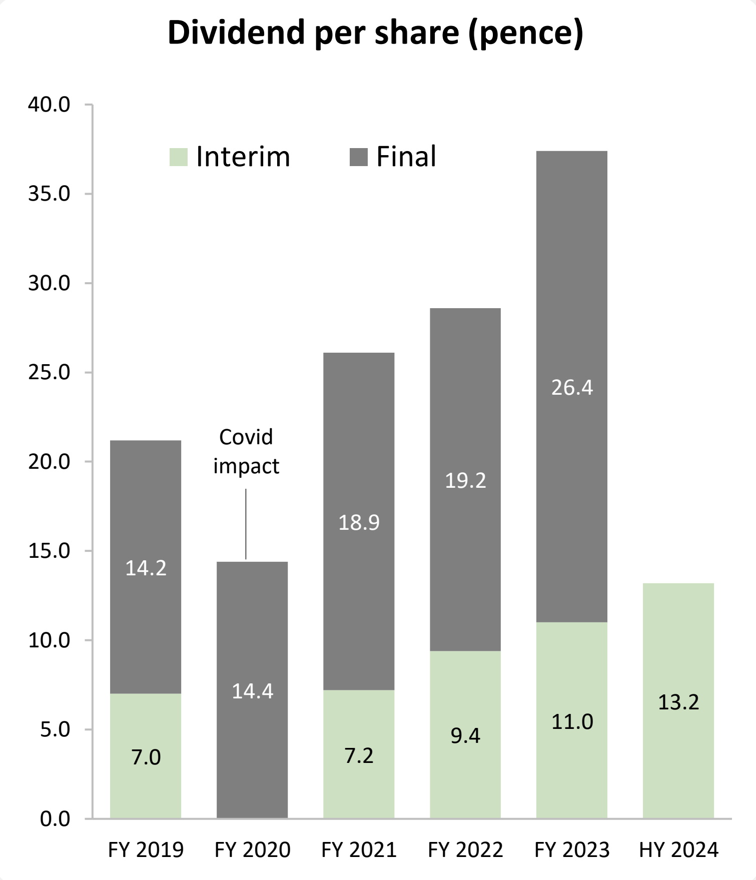
Capital management

Additional buy-back of up to £50 million announced, taking FY24 total to £100 million…

- Full year dividend policy remains at around 40% of underlying basic EPS
- 2024 interim dividend in line with policy (50% of prior year final)
- Additional buy-back announced, takes cumulative buy-backs to £533 million since 2015



Business performance review and strategic priorities

Nigel S Terrington
Chief Executive Officer

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Strategic pillars

Our strategy is driven by our purpose and helps us achieve our vision to become the UK's leading technology-enabled specialist bank and an organisation of which our employees are proud

Strategic priorities delivery

Growth

- 4.8% loan book growth delivered
- Activity levels improving
- Buy-to-let pipeline up 47% from FY23 position
- Development Finance pipeline up 21% from FY23 position

Diversification

- Commercial Lending 47.6% of Group's H1 2024 new lending
- Commercial Lending profit contribution £50.7 million (H1 20: £13.7m)

Digitalisation

- Transformation of Group's capabilities continues
  - Over 90% core and support systems cloud-based
- Developments across all business lines with focus on enhancing customer journey and improved productivity
- Launch of new mortgage origination platform imminent

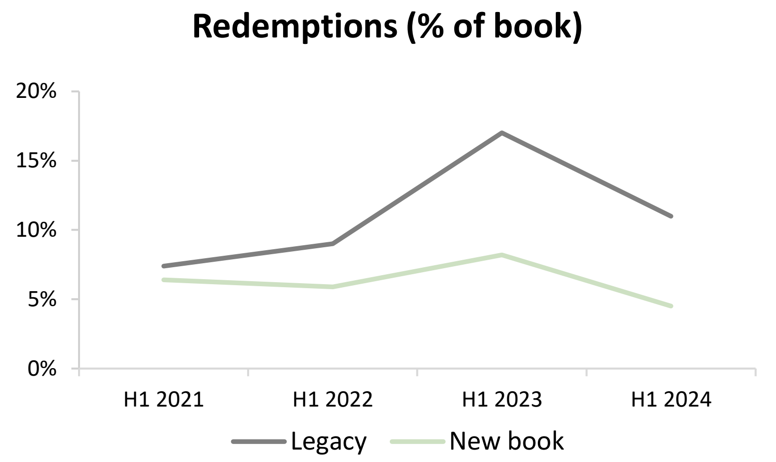
Capital management

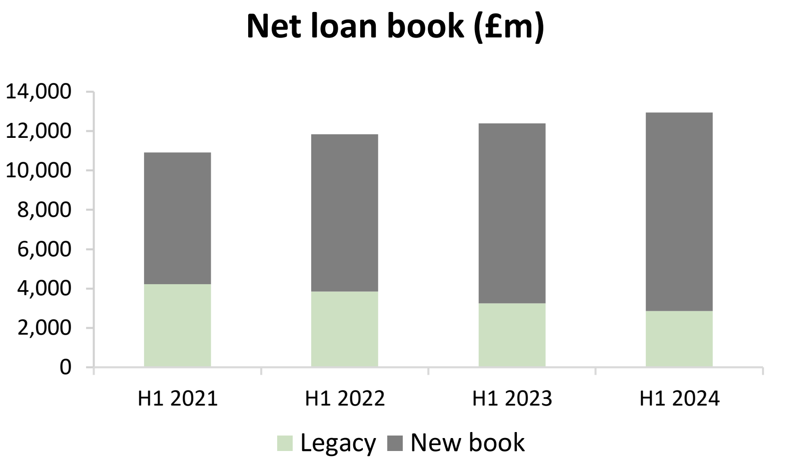
- Basel 3.1 and IRB create uncertainties; clarity on Basel 3.1 now expected to follow General Election
- Continued strong internal capital generation
- Buy-back programme boosted by up to £50 million more in H2 2024, takes cumulative buy-backs to £533 million since 2015

Sustainability

- Over 55% of new buy-to-let lending in H1 2024 with an EPC rating of A-C, up from 40% in 2021
- Development Finance's Green Homes Initiative increased from £200 million to £300 million
- Continued expansion of Motor Finance lending on battery electric and hybrid vehicles

Mortgages – continued focus on professional landlords driving loan book growth





New lending

- Lower volume in period reflects disruption caused by market conditions in 2023
- Specialist lending completions 99.1% (H1 2023: 98.6%)
- £649.3 million advances (H1 2023: £1,018.4m -36.2%)
- Pipeline £874.0 million (up from £810.9m at H1 2023 +7.8%, +47.0% versus H2 2023)

Customer retention

- Spike in 2023 redemptions caused by rates normalising as peak in base rates reached
- Continued strong performance in new book reflecting product offering, durability of professional landlords and retention strategies
- Over 80% of maturing fixed rate loans retained
- Clear bifurcation between legacy (amateurs) and new book (professionals)

Net loan book

- £12.9 billion, up 4.5% on H1 2023
- New book at £10.1 billion, up 10.2%
- Legacy book now £2.9 billion (H1 2023: £3.2bn) down 11.8%

MORTGAGE STRATEGY

Mortgage Strategy Awards 2024
Buy-to-Let Lender of the Year

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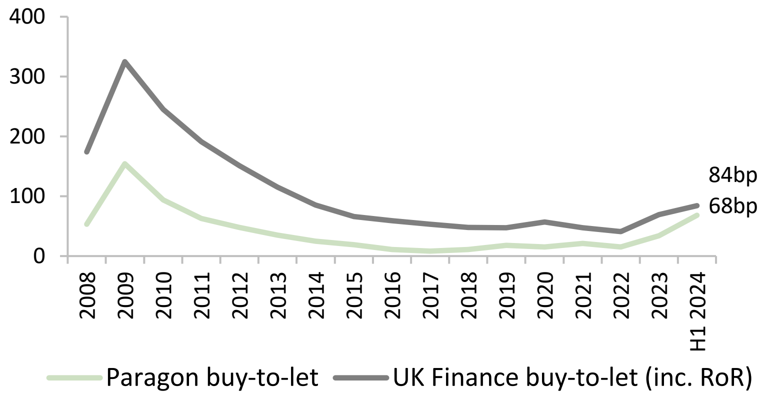
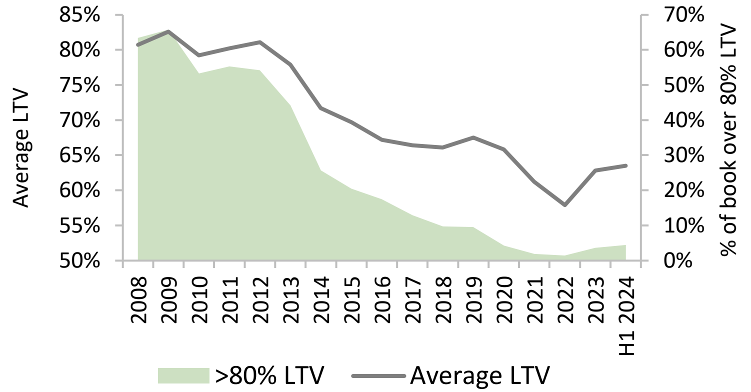
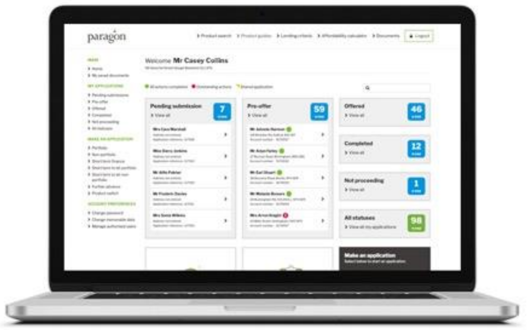
Mortgages – proven resilience of business model through-the-cycle

Arrears rate 3mths+ (bp)



Average LTV





Through-the-cycle experience

- Arrears increase concentrated in legacy portfolio, new book exemplary
- New arrears flow declining
- Experienced team with deep through-the-cycle knowledge
- In-house regional surveyors provide unique property insight
- Arrears remain below industry levels

Low risk

- Average LTV 63.5% (FY 2008: 80.7%)
- Portfolio LTV greater than 80%, 4.4% (FY 2008: 63.4%)
- ICR 200.8% (FY 2023: 190%)

Technology and proprietary data analytics

- Over 600 million customer data points per month
- New proprietary cloud-based digital platform to go live in H2 2024
- 25+ years of data informs:
    - System design
    - Underwriting
    - Pricing
    - Stress testing
    - Key differentiation for IRB

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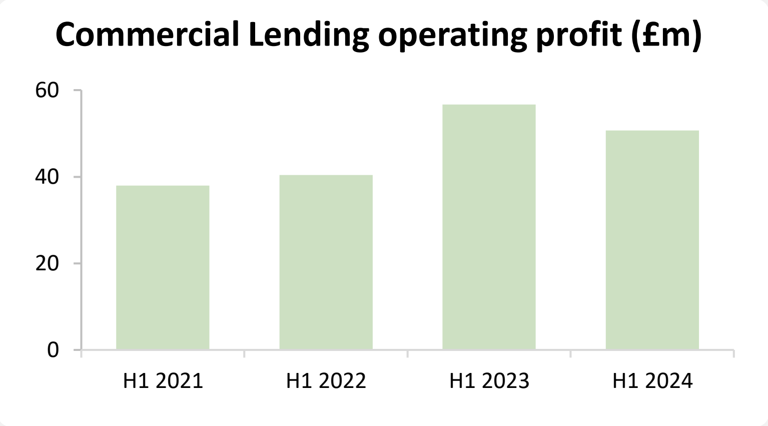
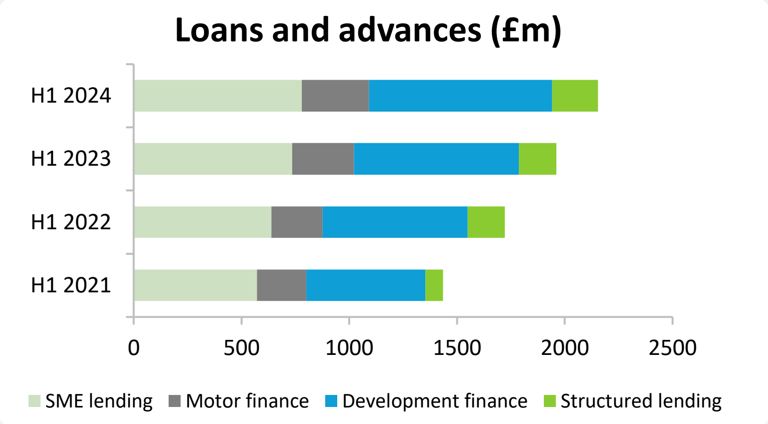
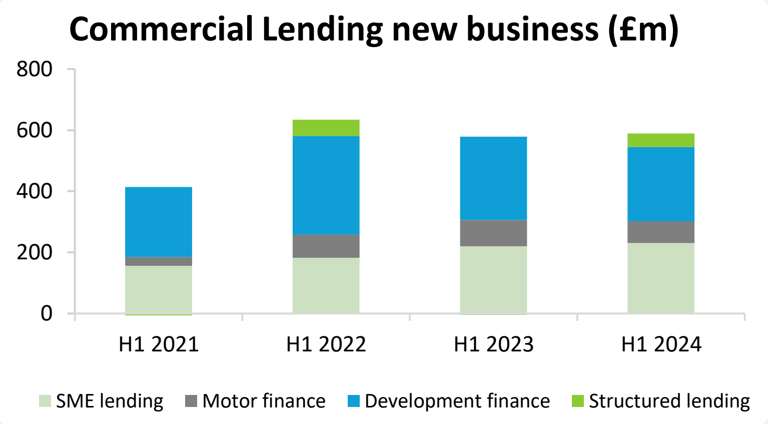
Commercial Lending provides increased diversification and structural NIM expansion

Continued growth, loan portfolio now exceeds £2.1 billion

- 48% of Group new lending
- 14% of Group loan book
- 27% of Group income
- H1 2024 profit contribution £50.7 million v £13.7 million in H1 2020
- 5.9% NIM in H1 2024







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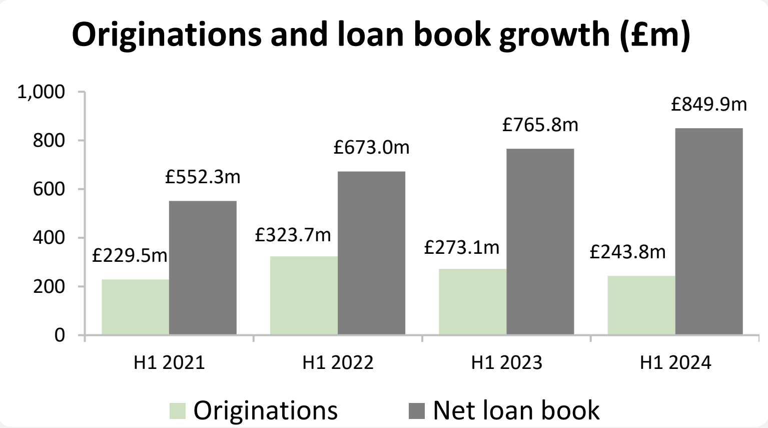
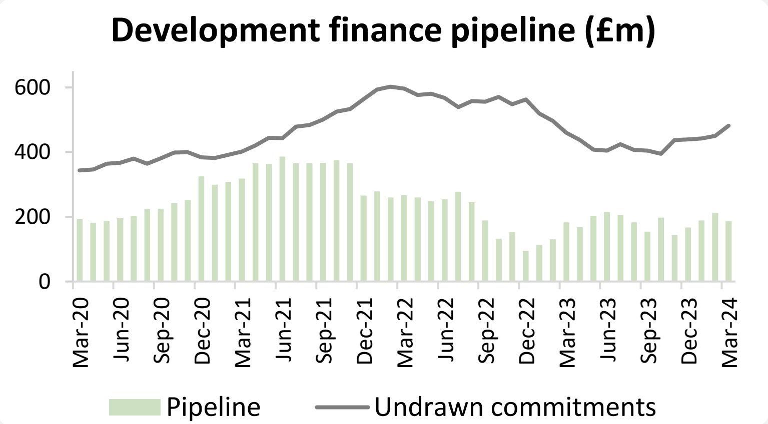
Commercial Lending – Development Finance

Strong new business recovery and well placed to benefit from market recovery

- Completions lower, reflecting reduced activity during 2023
- Stronger enquiry levels through H1 2024 as developer confidence returns
  - Expected peak in interest rates
  - House price stabilisation
  - Build cost inflation easing
- New business pipeline increased by 21% since year end
- Undrawn commitments increased by 19% since year end





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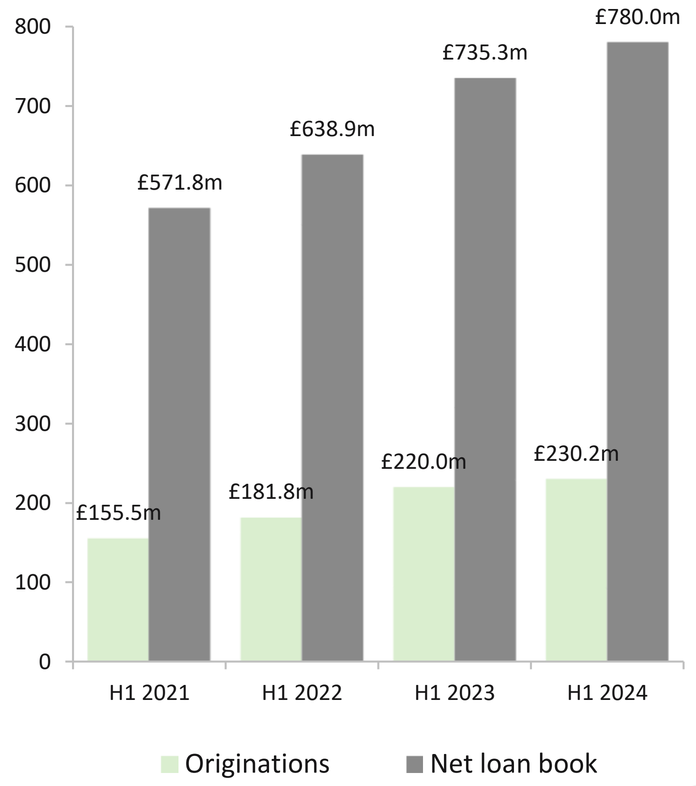
Commercial Lending – SME Lending

Robust new business performance

- 4.6% increase in new lending
- Loan book +6.0% to £780 million
- Technology platform transformation continues
  - Portal enhanced in period by proprietary AI-driven decisioning system
  - Utilises over 4,000 data points from range of sources to improve speed and accuracy of underwriting
- Excellent credit performance

Originations and loan book growth (£m)



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Commercial Lending – Motor Finance and Structured Lending

Focused on high quality loan growth

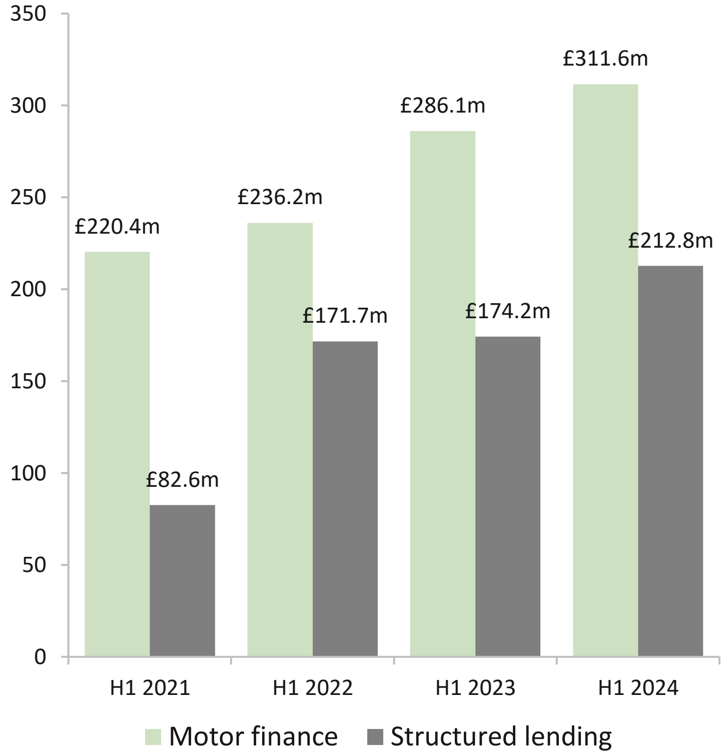
Motor Finance

- New business flow reflecting cautious underwriting
- Volumes -16.9% to £71.6 million
- Loan book +8.9% to £311.6 million
- Low exposure to FCA review of DCAs – reflects small volumes, guardrails imposed and late market entry
- Excellent credit performance

Structured Lending

- New facilities in H1 2024 £45.0 million
- Loan book +22.2% to £212.8 million
- Strong pipeline points to encouraging H2
- Credit performance exemplary

Loan book growth – Motor Finance and Structured Lending (£m)



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Strong deposit growth at attractive cost of funding

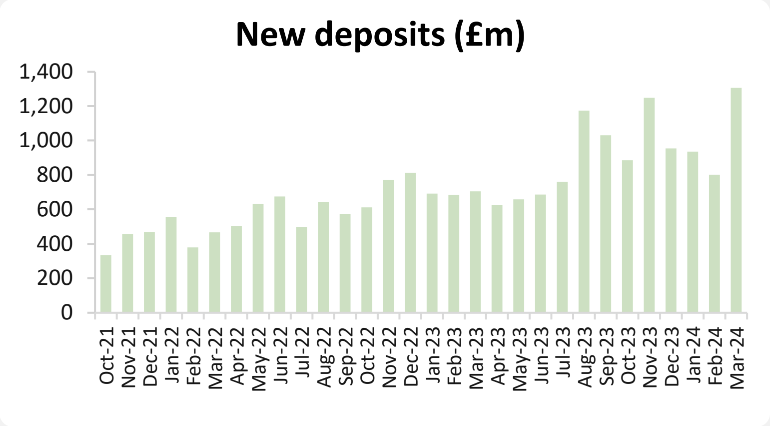
Strong franchise growth

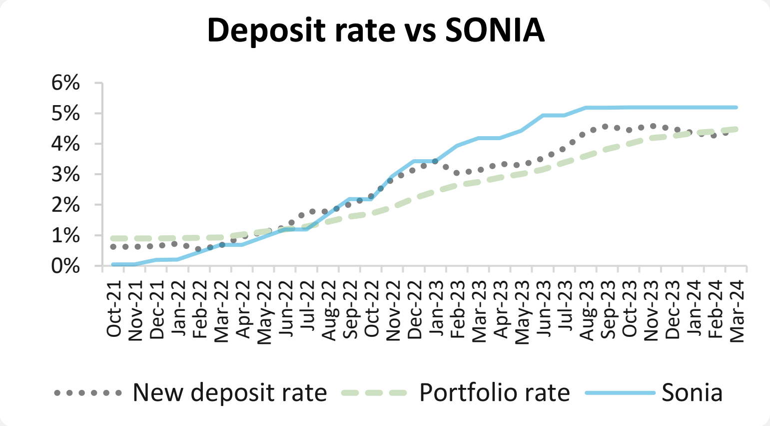
Adapting to higher rate environment

- Continued strong growth in deposit book – £14.8 billion, +24.4%
- Strong customer price and fair value proposition
- Record ISA season focused on supporting existing customers
- Growth in deposits facilitates early repayment of TFSME – £900 million repaid in H1 2024 with a further £400 million repaid since
- Further accelerated repayments in H2

Wholesale

- Fixed income market and price execution has improved
- Fitch affirm investment grade rating during the period
- Covered bond development progressing





Conclusions

Previous 2024 guidance

Volumes

- Buy-to-let £1.3-£1.6 billion
- Commercial Lending £1.0-£1.2 billion

NIM 3.0-3.1%

Operating costs circa £180 million

RoTE medium-term target 15-20% – 2024 towards top end of range

2024 trading performance

- Pipeline recovery strong, increasing confidence for H2 2024 new lending
- NIM outperformed expectations
- Tight cost control, absorbed Bank of England levy
- Substantial progress in repayment of TFSME
- Strong capital generation – announced additional buy-back of up to £50 million

Outlook

- UK economic outlook looks brighter with property markets set to benefit when rates fall
- Strong prudential position – ideally placed to support customers as demand increases
- Further technology changes to come – focus on customers and productivity
- Well positioned for growth

Upgraded guidance

- **Volumes towards top end of range**
  - Buy-to-let £1.4-£1.6 billion
  - Commercial Lending £1.1-£1.2 billion
- **NIM >3.1%**
- **Operating costs reconfirmed, including BoE levy**
- **RoTE reconfirmed**

Our Purpose …

To support the ambitions of the people and businesses of the UK by delivering specialist financial services

Appendix

Strategic priorities – sustainability

Our Responsible Business Report sets out our ESG strategy and the progress made

- Over 55% of new buy-to-let lending inH1 2024 with an EPC of A-C, up from 40% in 2021
- Expansion of funding available through Green Homes Initiatives in Development Finance from £200 million to £300 million
- Continued expansion of Motor Finance lending to battery electric and hybrid vehicles
- In SME lending we have established Green Champions to begin targeting more sustainable lending
- Climate change scenario analysis module delivered to Board as part of annual internal capital adequacy assessment procedure (ICAAP)

ESG ratings

Following investor feedback, we are most actively engaging with the following ESG rating agencies:

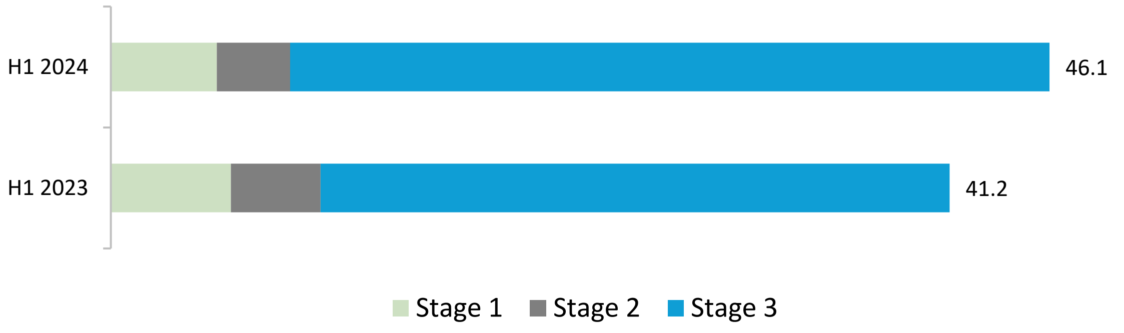
	Rating scale	Our rating
CDP	F to A	C
ISS	D- to A+	C
MSCI	CCC to AAA	AA
SUSTAINALYTICS	100-0	15.5

Provisions by stage and segment

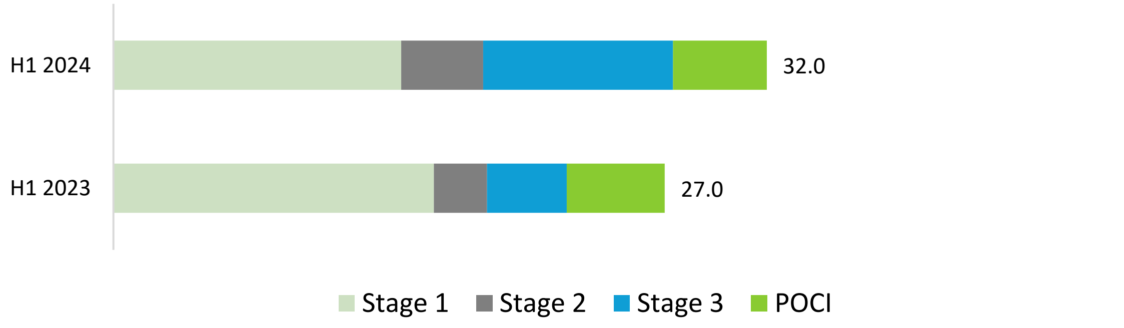
IFRS 9 impairments	Mortgage Lending	Commercial Lending	Total
Stage 1	12,126.6	1,938.2	14,064.8
Stage 2	797.5	175.9	973.4
Stage 3	204.8	65.9	270.7
POCI	11.9	6.3	18.2
Gross loan book (£million)	**13,140.8**	**2,186.3**	**15,327.1**
Stage 1	5.2	14.1	19.3
Stage 2	3.6	4.0	7.6
Stage 3	37.3	9.1	46.4
POCI	0.0	4.8	4.8
Impairment provisions (£million)	**46.1**	**32.0**	**78.1**
Stage 1	0.04%	0.73%	0.14%
Stage 2	0.45%	2.27%	0.78%
Stage 3	18.21%	14.11%	17.21%
POCI	0.00%	73.02%	25.27%
Coverage ratio H1 2024	**0.35%**	**1.46%**	**0.51%**
Coverage ratio H1 2023	**0.33%**	**1.36%**	**0.47%**

Impairments

IFRS 9 provisions (£m) – Mortgage Lending



IFRS 9 provisions (£m) – Commercial Lending



- Stage 1 overlays remain at £6.5 million

Portfolio impairment movements

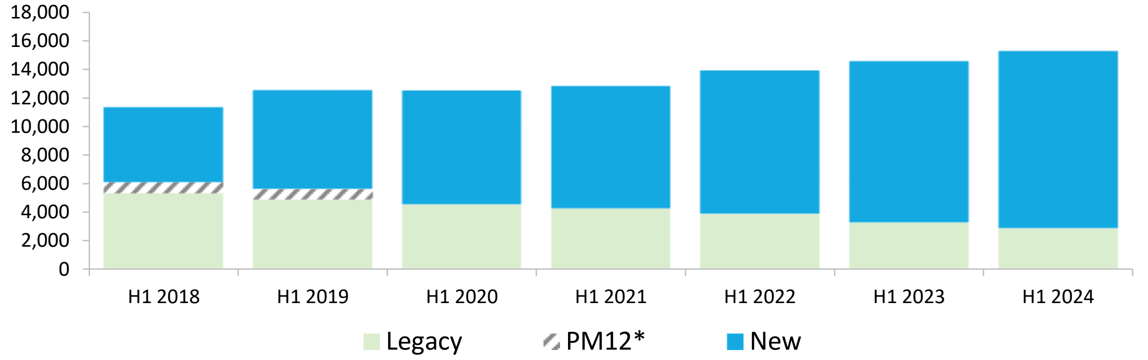
Impairments (£million)	Brought forward	Provided in period	W-off / Other	Carried forward
H1 2022	65.4	2.4	-12.6	55.2
H1 2023	63.5	8.7	-4.0	68.2
H1 2024	73.6	11.1	-6.6	78.1

Diversification

Diversified loan growth

Originations (£million)	H1 2024	H1 2023	Change
Specialist BTL	643.4	1,004.5	(35.9%)
Other mortgages	5.9	13.9	(57.6%)
Commercial Lending	589.8	574.4	+2.7%
Total	**1,239.1**	**1,592.8**	**(22.2%)**

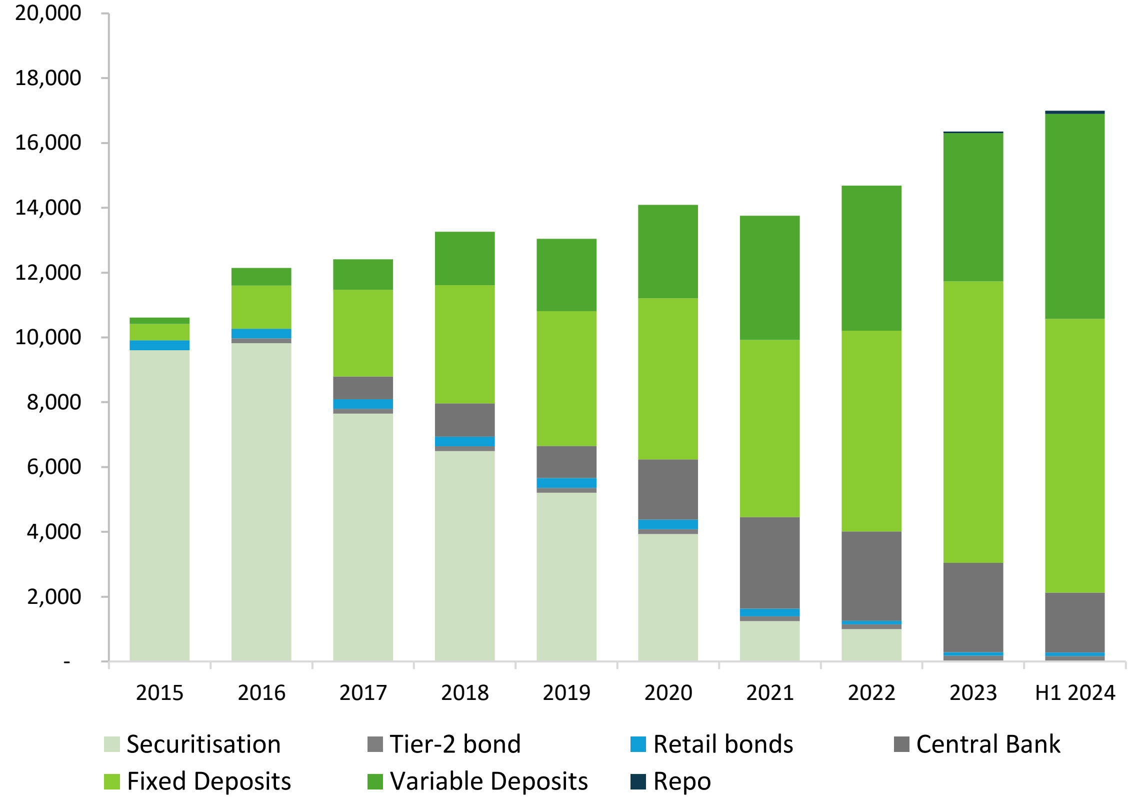
Total – loans and advances to customers (£m)



* Assets now off-balance sheet under management

Diversified funding

Funding by type (£m)



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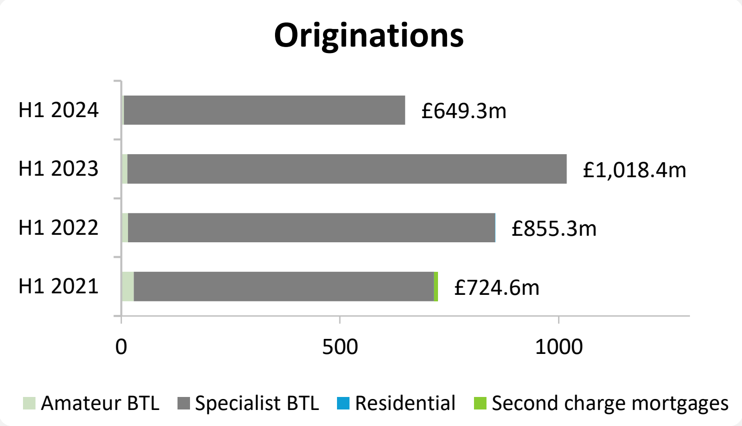
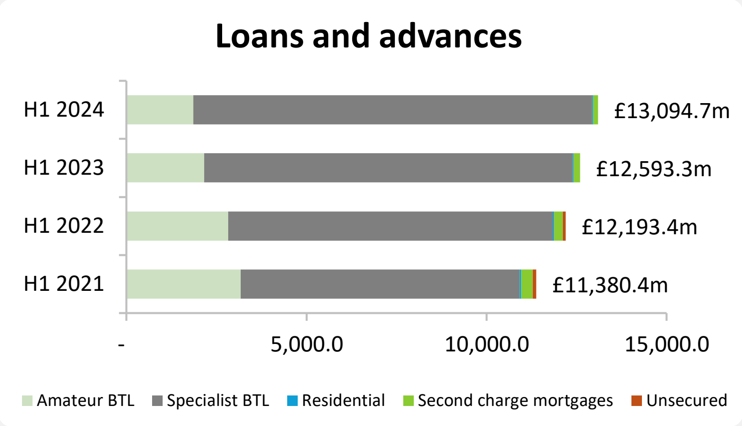
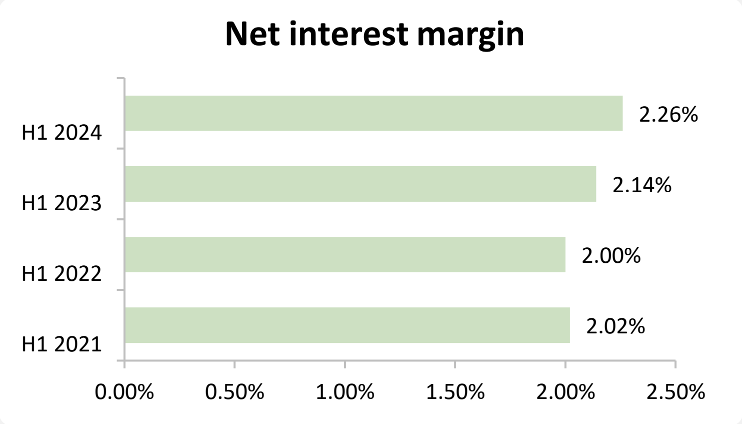
Mortgage Lending

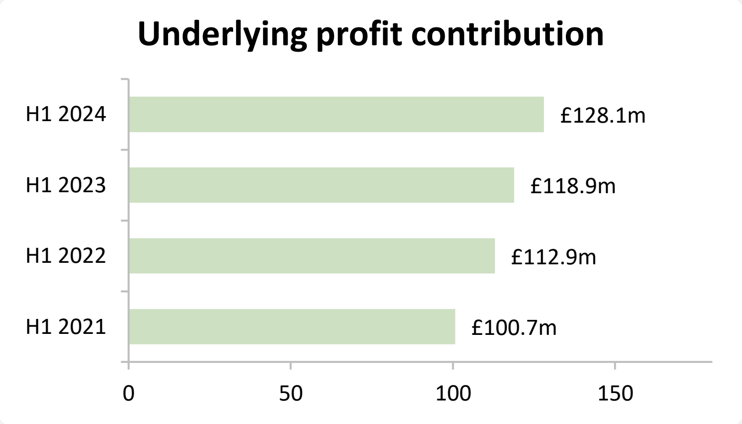
Lower originations reflect lower opening pipeline (now recovered)

Continued strong retention boosting loan book and income





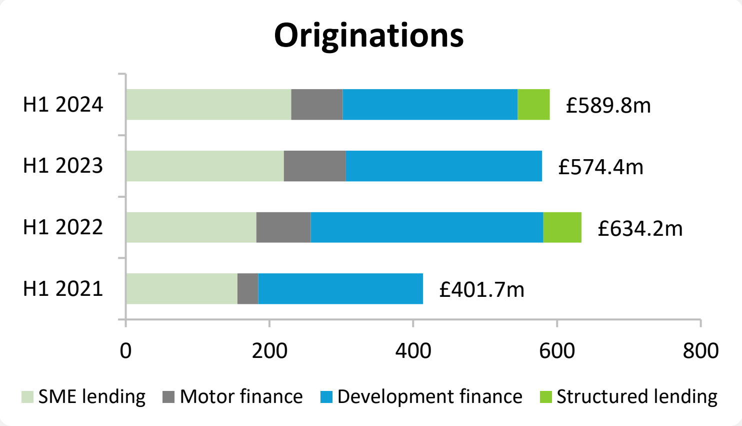


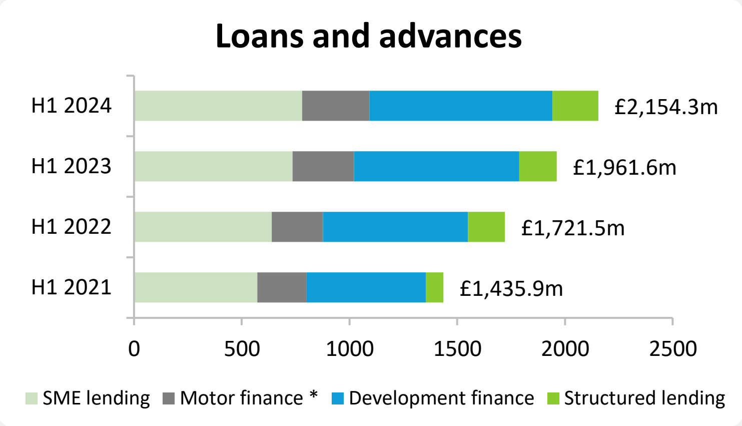


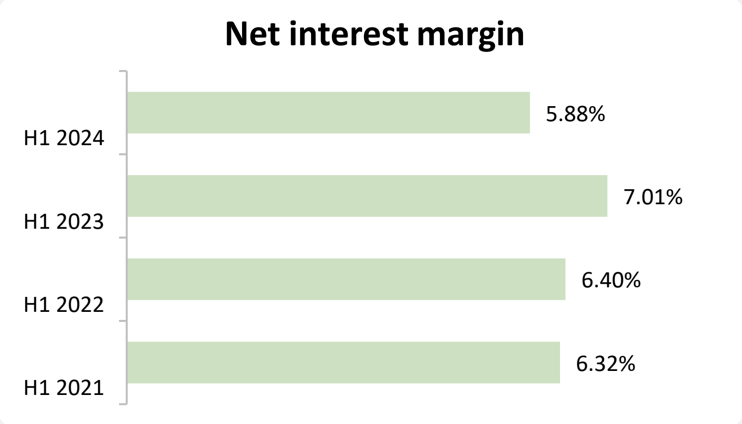
Commercial Lending

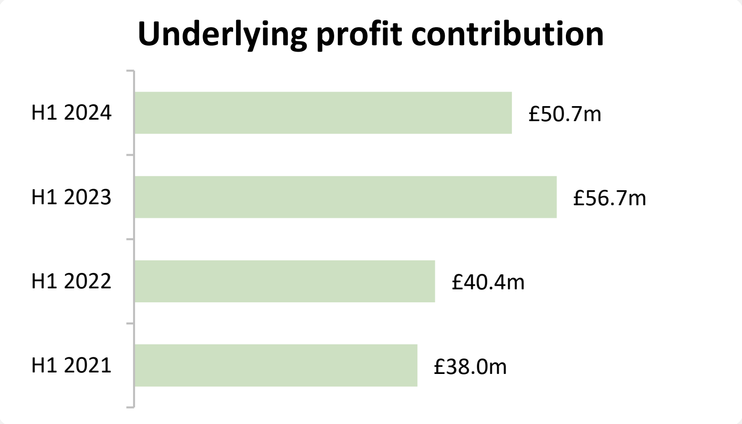
Loan book exceeding £2.1 billion

Longer build timescales in Development Finance see fees spread over longer period, increasing volume but reducing NIM









* Motor finance includes the Olympus portfolio

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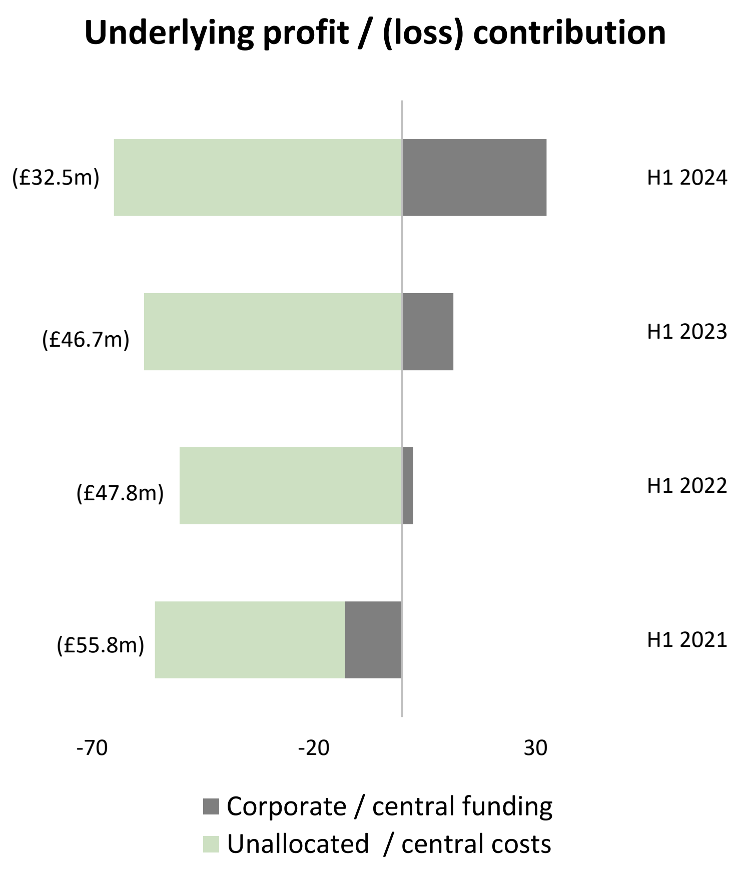
Central

Continued benefit from excess deposits held centrally rather than allocated back to operating segments

- Full period benefit of higher rate environment
- Central costs reflect:
  - Continued digitalisation focus
  - Third party deposit management costs
  - Inflation
  - Bank of England levy



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Balance sheet

£million	H1 2024	H1 2023	Change (%)
Mortgage Lending	13,094.7	12,593.3	+4.0%
Commercial Lending	2,154.3	1,961.6	+9.8%
Loans and advances to customers	**15,249.0**	**14,554.9**	**+4.8%**
Cash and equivalents	3,137.1	2,275.4	+37.9%
Other assets	594.7	490.1	+21.3%
Total assets	**18,980.8**	**17,320.4**	**+9.6%**
Capital and reserves	1,382.0	1,360.4	+1.6%
Retail deposits	14,768.5	11,875.9	+24.4%
Tier-2 bond	148.6	149.3	(0.5%)
Retail bonds	112.5	112.3	+0.2%
Securitisation funding	17.1	631.6	(97.3%)
Central bank facilities	1,850.0	2,750.0	(32.7%)
Other liabilities	702.1	440.9	+59.2%
Total liabilities and equity	**18,980.8**	**17,320.4**	**+9.6%**

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