PARAGON BANKING GROUP PLC
Trading update

Strong performance and progression against strategy

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 2023 to 30 June 2024.

Nigel Terrington, Chief Executive, said:

"We have delivered another quarter of strong performance and progression against our strategic priorities with strong growth across our loan and retail deposit books. Margins, costs and credit performance continue to perform in line with expectations, whilst strong new business flows reflect improving customer sentiment and more favourable economic conditions.

Our multi-year digital re-platforming programme is progressing well, and we will launch our new mortgage origination platform in the near future. This customised, cloud-based platform will deliver improved efficiency and customer experience. Further technology driven initiatives are in process for subsequent delivery.

We carry good momentum into the remainder of the year. Our strong balance sheet and high-quality customer base, allied with our in-depth sector expertise, positions us well to take advantage of improving market conditions and to support our customers in achieving their ambitions."

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 all elements of our guidance for the full year.

New business levels in our divisions are running ahead of expectations. Buy-to-let application flows remain strong, resulting in the pipeline increasing slightly during the quarter, at £888.5 million, and significantly higher than the £594.6 million at September 2023. Cumulative advances in the division for the year-to-date stand at £1.1 billion (YTD 2023: £1.4 billion). At £0.9 billion, Commercial Lending volumes were above their 2023 level for the period to June, with growth in SME and structured lending offset by lower flows in both the motor finance and development finance operations. The growth in development finance enquiry levels reported at the half-year results has continued, with the pipeline up 29% and the value of undrawn commitments remaining at elevated levels during the quarter. The new government's focus on developing the scale of new house building also enhances the outlook for this sector. Following the quarter end, the SME division gained accreditation to provide additional lending under the Growth Guarantee Scheme. We remain comfortable with our guidance for full year new lending in both divisions.

Redemption levels remain at historically low levels and in line with management expectations. Buy-to-let redemptions increased slightly in Q3, taking the annualised rate for the year to date to 6.5%, which remains low by historical standards and well below the rate of 9.4% seen in the corresponding period last year.

The combination of new lending levels and strong customer retention has resulted in the net loan book increasing by 5.0% year-on-year, to £15.4 billion.

The Group's net interest margin remained strong and the guidance for the full year of over 310 basis points is reconfirmed.

Digital re-platforming remains a key pillar of our strategy and our new cloud-based Mortgage Originations platform is scheduled to be released in the near future as the delivery process continues apace. We continue to work on a number of other initiatives that will be brought to market in due course.

Credit performance

Mortgage LTVs remain low by historical standards, at 63.1%. Three-month plus arrears on the BTL portfolio dropped to 44 basis points at the quarter end from 68 basis points at March 2024. The new book, which now represents £10.4 billion of the total BTL portfolio, continues to see low and stable arrears at 9 basis points. The slight increase in development finance stage 3 accounts noted at the 2024 half-year continued during the third quarter. All Group loan portfolios continue to demonstrate a strong credit performance.

Capital and funding

The Group's retail savings balances continued to outperform the market in the quarter, standing at over £16.2 billion at the quarter end, up 31.8% year-on-year. The strong deposit flow has facilitated the repayment of a further £500.0 million of TFSME borrowings since 31 March 2024, while maintaining a strong liquidity position.

Unverified capital ratios were 14.5% for CET1 and 16.3% for TCR at the quarter end (these reflect half of the assumed final dividend and the full £100.0 million buy-back for FY24). These figures compare to 15.6% and 17.5% at Q3:2023 respectively.

Guidance and outlook

The Group re-confirms the guidance given at the half-year results for the FY2024:

Mortgage Lending advances	£1.4-1.6 billion
Commercial Lending advances	£1.1-1.2 billion
Operating costs	Below £180 million
NIM	Over 310 basis points

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Paragon will be releasing its full year results for the 12 months to 30 September 2024 on 3 December 2024.