

Trading Statement

The Paragon Group of Companies PLC ("the Group") today publishes its Trading Statement based on the business performance from 1 October 2014 to date, including a commentary on the unaudited financial information from 1 October to 31 December 2014.

The Group's financial performance remains strong, in line with management's expectations. Operating profits (before fair value items) of £30.9 million compare with £26.9 million for the corresponding period in the previous year, representing a 14.9% increase. Pre-tax profits, after a debit of £0.7 million for fair value hedging items, were £30.2 million for the period (2014 first quarter: £27.1 million).

Trading activity

The Group's loan portfolios continue to perform well, generating strong profits and cash flows.

During the quarter, buy-to-let completions across the Group were £222.1 million, an increase of 58.4% compared to the same period in the last financial year. Of this, £193.3 million (87.0%) was originated through Paragon Mortgages and £28.8 million (13.0%) through Paragon Bank. At 31 December 2014, the pipeline of buy-to-let business (including Paragon Bank) stood at £416.7 million. This compares to £222.5 million at the same point in 2013 and supports further growth in completions in the second quarter.

At 31 December 2014, the Group's arrears on its buy-to-let portfolio stood at 22 basis points, showing continued strong performance from the 25 basis point level reported at 30 September 2014. Redemptions across the buy-to let portfolio were £96.9 million for the period to 31 December, representing a modest reduction from the £106.5 million seen in the quarter to 30 September 2014.

Idem Capital's loan investments continue to perform well, with cash recoveries exceeding underwriting expectations. Investments made during the quarter to 31 December were £6.2 million. Idem Capital's acquisition focus remains on larger portfolios of paying/performing loans and we continue to see a strong pipeline of such opportunities, at various stages of consideration. Given the nature of these opportunities, however, the timing of investment flows remains unpredictable.

Paragon Bank's car finance activity focused on broadening its distribution network. Completion levels rose to £6.3 million during the quarter and, with the distribution base almost doubling during the period, a stronger growth rate in advances is expected in the coming months.

The launch of Paragon Bank's secured lending proposition during the quarter has been well received. Advance levels are, as expected, modest at this stage, but are likely to grow as distribution expands.

Paragon Bank's buy-to-let activities have developed well, with a broader roll-out of products commencing in January 2015. At 31 December, Paragon Bank's buy-to-let pipeline stood at £44.4 million.

Funding

In November 2014, the Group completed its latest securitisation of loan assets through Paragon Mortgages (No.21) PLC. This brought total securitisation note issuance to £929.7 million in the 2014 calendar year and confirmed Paragon's position as one of the leading issuers in the UK residential mortgage backed securities market.

Paragon Bank continued to develop its retail savings proposition during the quarter, with period end deposit balances of £94.1 million. The range of savings products was also broadened to include easy access, one, two and three year term bonds and 40 and 120 day notice accounts.

During the quarter to 31 December 2014, the Group's £250 million mortgage warehouse facility provided by Macquarie Bank was renewed on finer terms and is now available for drawing until December 2016.

Strong cash generation from the Group's various loan portfolios has underpinned the increase in available cash balances to £221.7 million at 31 December 2014 from £177.3 million at 30 September 2014.

Capital management

The Group announced with its full year results in November 2014 an intention to commence an initial £50 million share buyback programme. To date, 1,000,000 shares have been acquired at an average cost per share of £4.03.

Outlook

Activity levels in the buy-to-let market have remained robust with good demand evident from tenants and landlords being reflected in the growth in new advances and the pipeline of new business. A considerable number of debt purchase opportunities, particularly as measured by value, continue to exist, although as previously stated, timing is unpredictable. The Bank is making good progress in establishing and building distribution, which will support the Group's strategy to diversify its income streams and funding sources over time.

The Group is well placed to generate further growth in each of its target markets and continues to focus on improving shareholder returns through active capital management.

The Group intends to announce its results for the six months to 31 March 2015 on Tuesday 19 May 2015.

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