

Trading Update

The Paragon Group of Companies PLC ("the Group") today publishes its Trading Update based on business performance from 1 October 2014 to date, together with a commentary on the unaudited financial information from 1 October 2014 to 30 June 2015.

The Group's financial performance continues to run in line with management's expectations. Operating profit (before fair value items) of £98.0 million for the nine months to 30 June 2015 compares with £88.3 million for the corresponding period in the previous year, representing an 11% increase. Pre-tax profits, after a charge of £0.5 million for fair value hedging items, were £97.5 million for the period (2014: £88.8 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 £370.3 million, representing an increase of 98.0% compared to the same period in the last financial year. Group-wide year-to-date buy-to-let completions totalled £816.5 million, of which £630.5 million (77.2%) was originated through Paragon Mortgages and £186.0 million (22.8%) through Paragon Bank, which reflects the increased capacity through the Group's continued funding diversification strategy.

At 30 June 2015, the arrears on the Group's buy-to-let portfolio stood at 20 basis points, unchanged from that reported at 31 March 2015. Redemptions across the buy-to-let portfolio rose to £148.2 million for the quarter to 30 June 2015, with the majority of the increase arising, in line with expectations, from the newer loan portfolio as it starts to season. The annualised redemption rates on the old and new buy-to-let portfolios stood at 4.8% and 14.9% respectively during the quarter.

Idem Capital's loan investments continue to perform well, with cash recoveries exceeding underwriting expectations. New investments made during the quarter to 30 June 2015 rose to £80.7 million, taking the year-to-date investment level to £101.7 million. As previously reported, with a focus on larger-scale purchases of paying loans, investment levels through Idem Capital remain volatile on a quarter-by-quarter basis.

Paragon Bank's loan portfolio continues to grow as anticipated. Car finance activity remains focused on broadening its distribution network and completion levels rose to £12.6 million during the quarter and £28.2 million year-to-date.

Paragon Bank's secured lending proposition also continues to grow as its distribution expands, with completions in the quarter to 30 June 2015 rising to £3.8 million.

Paragon Bank's medium term target of financing half the Group's new lending remains on track. £124.1 million of completions (representing 33.5% of the Group's total lending) were financed by Paragon Bank during the quarter and at 30 June 2015, Paragon Bank's pipeline of new buy-to-let business stood at £259.7 million, representing 30.0% of the Group's total.

Funding

Paragon Bank's savings proposition has developed strongly, with the balance of deposits outstanding rising to £387.9 million at 30 June 2015. This level materially exceeds the loan assets on Paragon Bank's balance sheet and reflects the strength of the pipeline of business now pre-funded by Paragon Bank.

On 23 July 2015, against a market disrupted by the Greek debt crisis, the Group completed its latest securitisation transaction, PM23. Whilst it was a higher coupon than the previous deal, due to the current market conditions, the transaction was supported by a broad range of investors in both the UK and Europe, reflecting the Group's position as one of the UK's most highly regarded securitisers.

As a consequence of the higher level of Idem Capital investments during the quarter and the strong level of new origination activity, the Group's available cash balances reduced to £107.9 million at 30 June 2015 from £206.7 million at 31 March 2015. Idem's outstanding loan balances at 30 June 2015 stood at £449.7 million, supported by £114.4 million of dedicated funding. The Group continues to generate strong operational cash flow which, together with substantial debt capacity, will support future growth plans.

Capital management

The Group has maintained its share buy-back programme during the period. As at 30 June 2015, 8,500,000 shares have been acquired at an average cost of £4.26 per share. The £36.2 million invested in the share buy-back programme since December 2014 represents 72.4% of the £50.0 million initially allocated.

Outlook

The Group is well placed to generate further growth in each of its target markets.

At 30 June 2015, the pipeline of buy-to-let business (including Paragon Bank) stood at £864.9 million, compared to £352.7 million at the same point in 2014, and this is expected to lead to strong growth for 2015.

The recently announced Budget changes may impact some landlords' investment decisions in the future, but the Private Rented Sector continues to see strong tenant demand, thereby providing the platform for strong and stable buy-to-let returns.

The timing of new investment volumes in Idem Capital's sector of the debt purchase market remains difficult to predict given the scale and vendor disposal timetables; however, the quarter to June 2015 delivered a strong result and the division continues to see a strong pipeline of opportunities.

Paragon Bank's asset generation activities continue to develop, led by the buy-to-let product where the Group already has an established distribution network. Secured personal lending and, in particular, car finance activities will take longer to establish meaningful volume flows given the time required to build an effective distribution capability. The Bank continues to explore additional product opportunities in the mortgage, consumer and small business sectors.

The success of Paragon Bank's retail deposit gathering has again been evident during the quarter, where over £200 million of new deposits were raised. Paragon's latest securitisation was positively received by investors, representing the strength of the underlying credit quality of the Group's buy-to-let assets.

The Group intends to announce its results for the year to 30 September 2015 on 24 November 2015.

For further information, please contact:

Nigel S Terrington	Richard Woodman
Chief Executive	Group Finance Director
Tel: 0207 786 8455	Tel: 0121 712 2607

Del Jones
Fishburn
Tel: 020 7092 2313 or 020 7092 2222