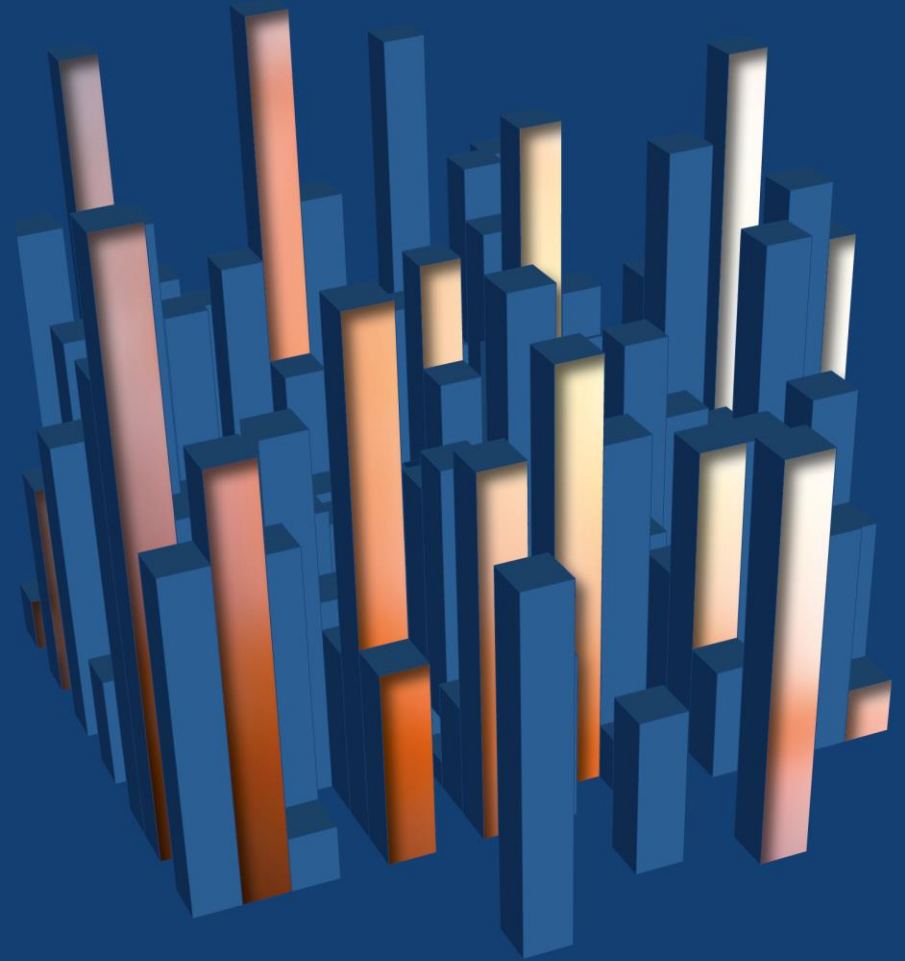


2016 Full-Year Financial Results

The Paragon Group of Companies PLC



Twelve months ended 30 September 2016

Evolving from a non-bank,
securitised, monoline lender
to a retail funded, diversified
banking group ...

Agenda

Section 1

Financial Results

Section 2

Strategy and Business Development

Appendices

Introduction to Paragon

Company Overview

Strong financial performance

- Strong growth in revenue, NIM, profits and RoTE up to 13.2%
- Dividend cover ratio target achieved on plan
- Outstanding credit performance, now and through-the-cycle

Further progress in capital optimisation

- £100 million buy-back programme completed; further £50 million increase announced
- Successful T2 bond rebalancing debt/equity mix

Robust trading

- Good lending and balance sheet growth (+ 6.7%) – despite a year of disruption
- Pricing and credit discipline maintained in a competitive market
- Encouraging pipeline growth; strong momentum across all divisions

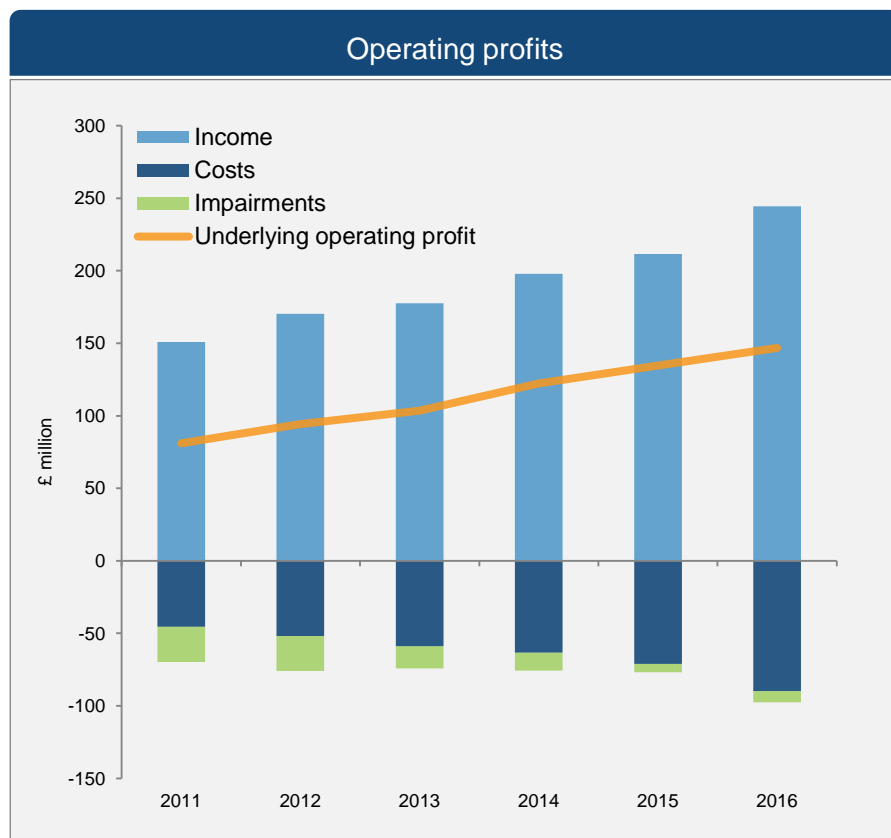
Delivering on strategy

- Bank increasingly front and centre stage – deposit book through £2 billion - franchise clearly established
- Acquisition of Five Arrows Leasing Group and Premier Asset Finance enhances diversification strategy
- Foundations in place for strong medium term diversified and sustainable growth, leveraging cost base
- Transitional period ... evolving from a non-bank, securitised, monoline lender to a retail funded, diversified, banking group
- Well positioned to exploit changing environment

Section 1

Financial Results - Twelve months ended 30 September 2016

Underlying operating profits increased by 9.1% to £146.9 million



- Underlying revenue increased by 15.6%
- Net interest margin up from 2.04% to 2.15%
- Average loan book up 7.7% to £10.4 billion
- Other income growth reflects asset finance acquisition

- Underlying cost:income ratio 36.7% post asset finance acquisition
- FY consolidated PBAF and Premier costs will take 2017 absolute costs to £95-£105m range, leveraging cost base

- Underlying operating profit CAGR of 12.6% (2011-2016)

- Bad debts remain low at 7bp

Paragon Bank posts first profits with organic and acquisitive growth

Paragon Bank

- Paragon Bank moves into profit for first time, following Five Arrows Leasing Group acquisition
- Underlying profits of £11.6 million (2015: loss of £8.6 million)
- Profit growth will accelerate as new business levels augmented by asset purchases from Group; optimising cost base

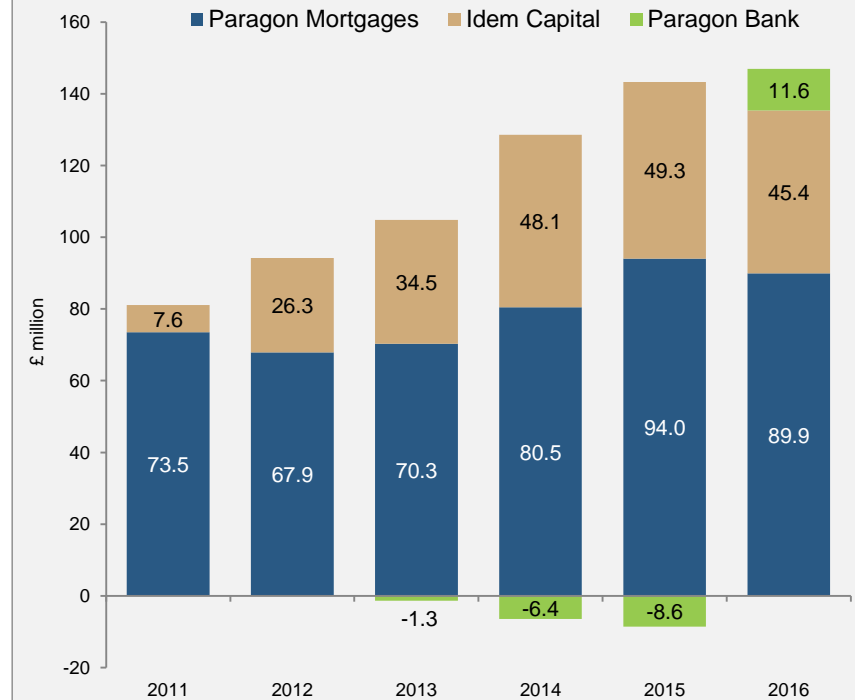
Paragon Mortgages

- Operating profit of £89.9 million despite transfer of securitisation pool and greater inflow of originations through Paragon Bank (2015: £94.0 million)
- Loan assets - £8.8 billion (2015: £9.2 billion)

Idem Capital

- Operating profits of £45.4 million (2015: £49.3 million)
- Idem Capital now working in conjunction with Paragon Bank to optimise retail deposit funding

Underlying operating profits increased by 9.1%



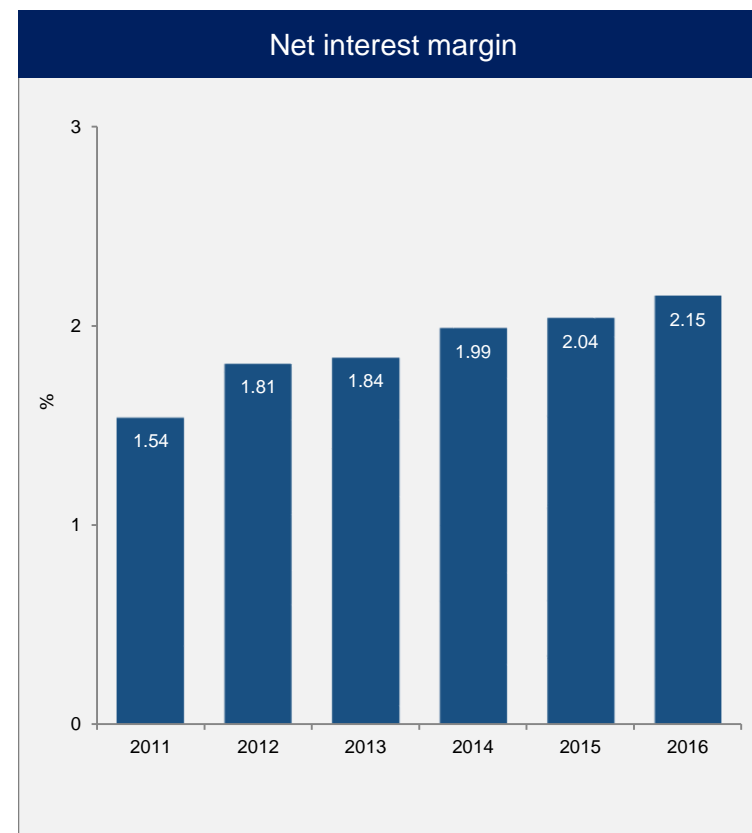
Strong yields in specialist markets support NIM progression

- New BTL yields reflect competitive environment and lower swap costs
- Asset finance to target growth on the larger mid-market opportunity; lower yields but good risk adjusted returns
- Idem Capital yields reflect market rates and benefits from continued out-performance against underwriting plans

	Average balance		Gross yield	
	2015 £m	2016 £m	2015 %	2016 %
Buy-to-let (Paragon Mortgages/Paragon Bank)				
• New	1,666.5	2,786.0	5.17	4.71
• Legacy	7,211.9	6,814.4	2.27	2.23
Acquired portfolios (Idem Capital/Paragon Bank)				
• Secured	235.1	291.7	17.60	18.22
• Unsecured	172.1	207.7	18.15	15.99
Consumer (Paragon Mortgages/Paragon Bank)				
• New	26.0	108.0	5.18	5.22
• Legacy	244.6	188.2	9.06	9.80
Development finance (Paragon Bank)				
	n/a	2.2	n/a	8.99
Asset finance (Paragon Bank)				
	n/a	247.8	n/a	10.46

Margin growth enhanced by diversification strategy

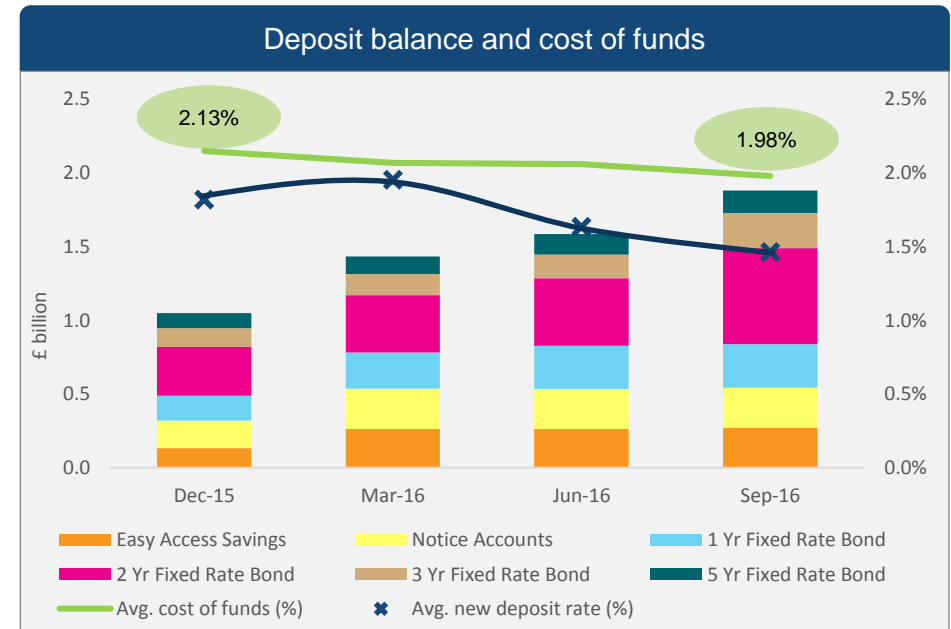
- Asset and consumer finance operate at wider spreads
- Underlying increase in NIM is 10-15bp per annum
 - Additional corporate leverage offsets this
 - Lower NIM in 2017 from base rate cut to be offset by TFS drawings
- Higher securitisation costs in 2015/16
- Focus on lending in Paragon Bank optimises use of deposits where falling cost creates a financing tailwind



- Absorbed retail bond issued in 2015

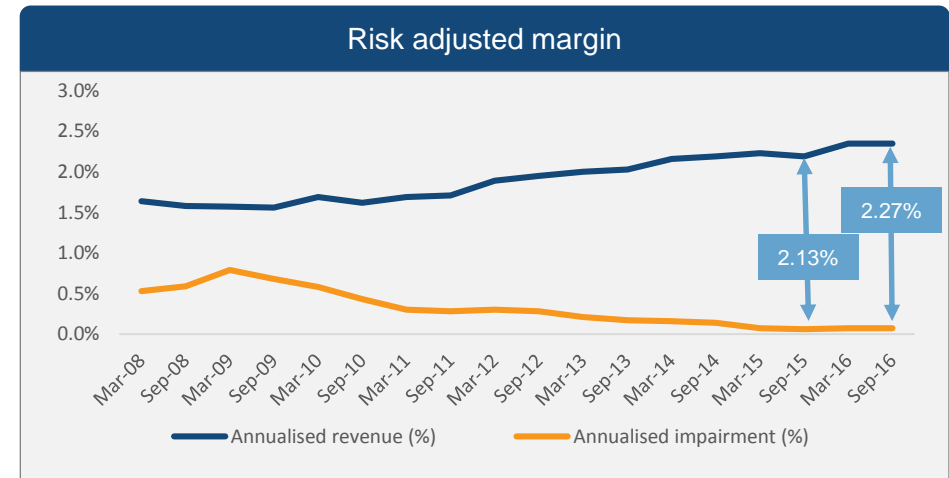
Strong growth in deposit levels at increasingly attractive prices

- Marginal cost of deposit raising reduced materially – trend continuing after financial year end
- Product pricing has fallen across period
- New product pricing significantly lower than extant book
- Launch of Term Funding Scheme could see further reductions in pricing across market supporting lending growth



Margin profile improved with no evidence of credit weakening

- Market uncertainties still not evidenced in terms of credit stresses on Paragon's various consumer portfolios
- All portfolios show like-for-like improvements in credit behavioural score levels since 2015

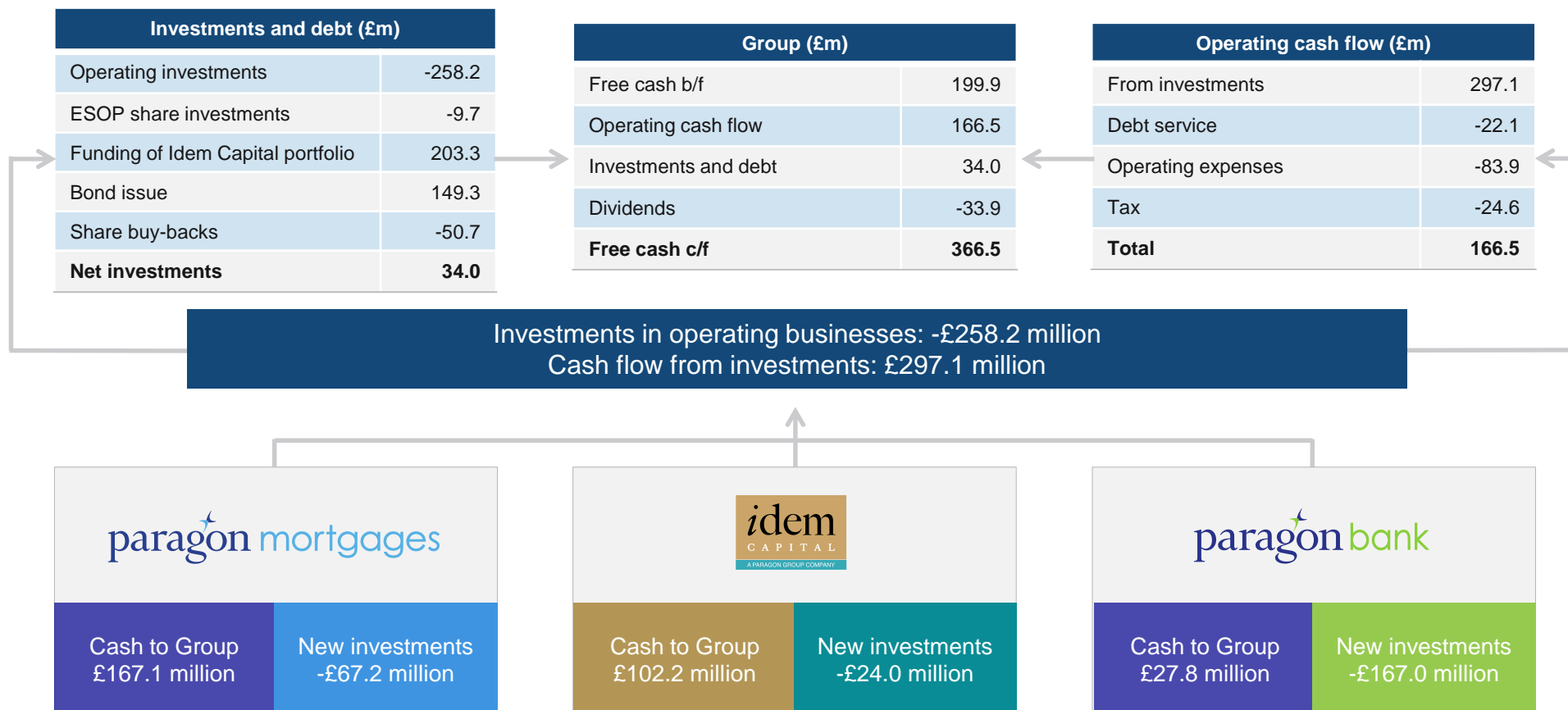


RAM – Total operating income less impairment as a percentage of average receivables

- Lead indicators suggest 2017 bad debts broadly in line with 2016 levels
- Launch into asset finance has increased returns whilst credit standards have been maintained
- Impairment rates remain low and stable

Indexed credit behavioural scores by portfolio		
	September 2015	September 2016
Legacy buy-to-let assets	100.0	100.4
New buy-to-let assets	100.0	103.5
Idem Capital assets	100.0	109.7
New second charge mortgage assets	100.0	102.3
Legacy second charge mortgage assets	100.0	104.2
Car finance assets	100.0	101.0

Group remains strongly cash generative with increasing investment in Paragon Bank



Capital levels remain strong and efficiency improving

Group consolidated capital	
Core Tier 1 capital *	£838.6m
Tier 2 capital	£167.0m
Risk exposure (RWA and operational risk)	£5,287.5m
CET1 ratio *	15.9%
Total capital ratio	19.0%

Group consolidated leverage ratio	
Tier 1 equity *	£838.6m
Balance sheet assets and off balance sheet items	£13,618.5m
Leverage ratio *	6.2%

Group solo net debt	
Corporate debt	£558.7m
Free cash	£366.5m
Net debt position	£192.2m

* Adjusted for proposed dividend

Capital management focus

- Minimum Group capital levels determined by regulators
- Additional management buffer held
- Bank subsidiary operates with higher capital requirements
- Bank capital requirements delivered by a range of instruments; CET1 being the most expensive
- Strategy to improve capital efficiency whilst maintaining a prudent capital base
 - Organic and acquisitive growth
 - Dividend cover ratio reduced to 3 times
 - Buy-back programme returns surplus to improve capital efficiency

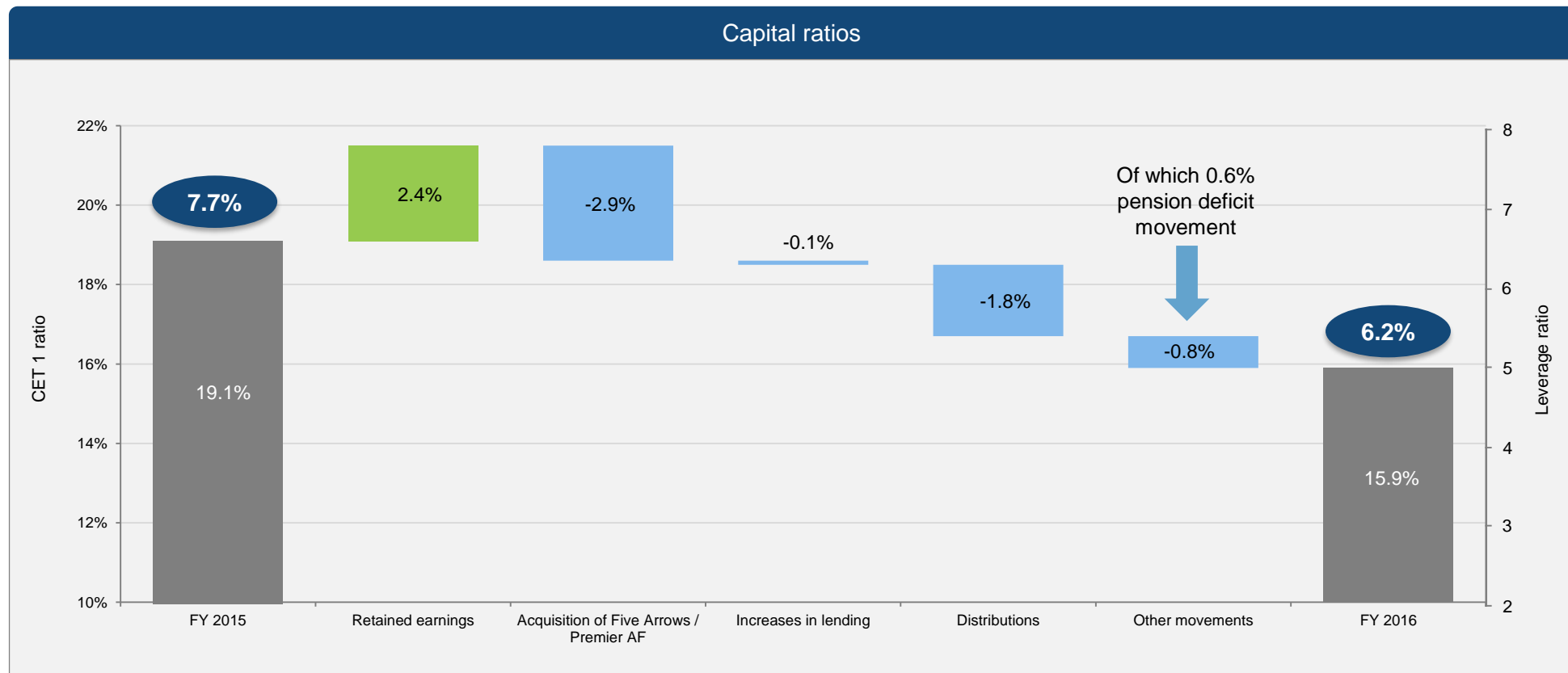
Risk-weighted assets

- Group operates under Standardised Approach (SA) to assessing risk-weightings
- SA currently under review by Basel Committee – potential for higher risk weights on BTL
- Internal ratings approach under development
 - Model build and embed use in Group's operational and risk management process
 - Regulatory approval – to seek in due course
 - Facilitated by data rich Group
 - Potential to reduce risk weightings and support greater growth levels

Tier 2

- Paragon's £150 million 7.25% Tier 2 bond issued; will refinance £110 million sub-bond maturing in April 2017
- Strengthen and diversify Group's total capital base
- Attractively priced relative to equity capital
- Incremental cost in 2017 will impact NIM by 8bp

Underlying CET1 growth offset by acquisitions, distributions and pension movements

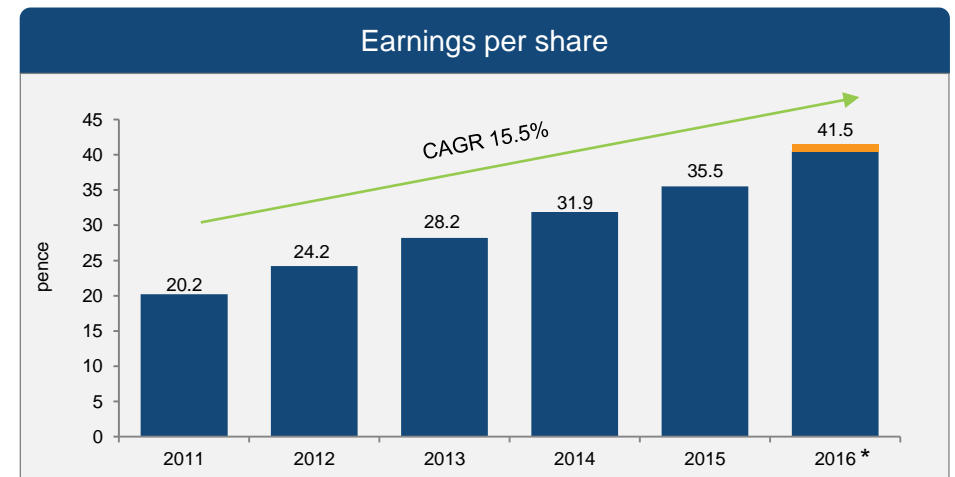
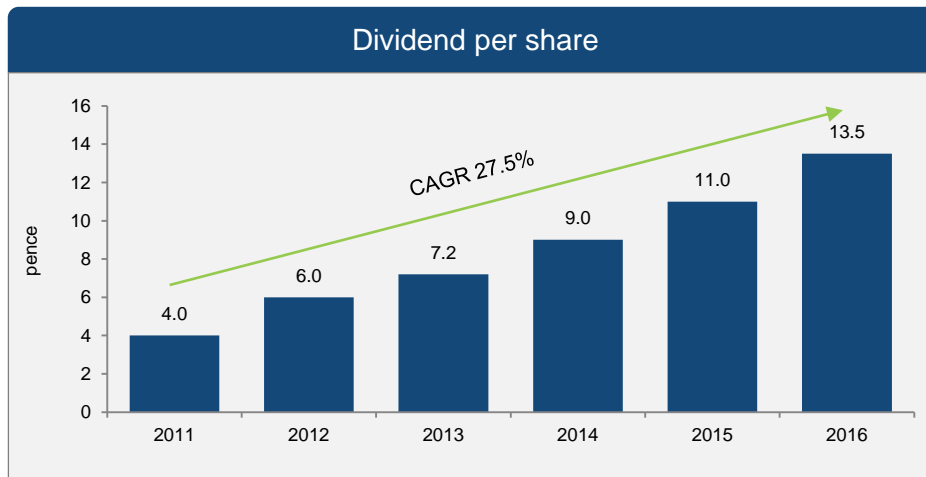


● Leverage ratio

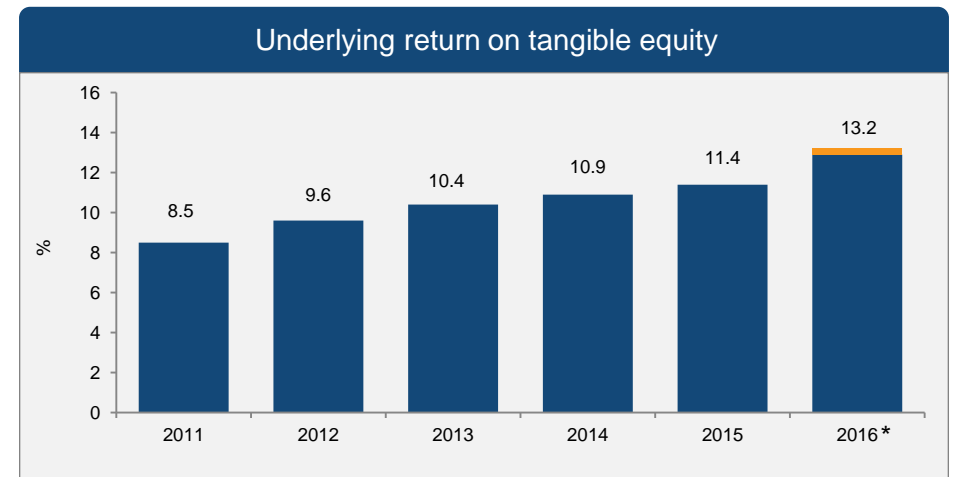
Dividends 0.8% and buy-backs 1.0%

Further progress on key financial measures

- Improvements reflect profit growth and capital management progress
 - Underlying EPS up 16.9%
 - Dividend up 22.7%
 - Underlying RoTE improved to 13.2% from 11.4%



* Reported and underlying figures

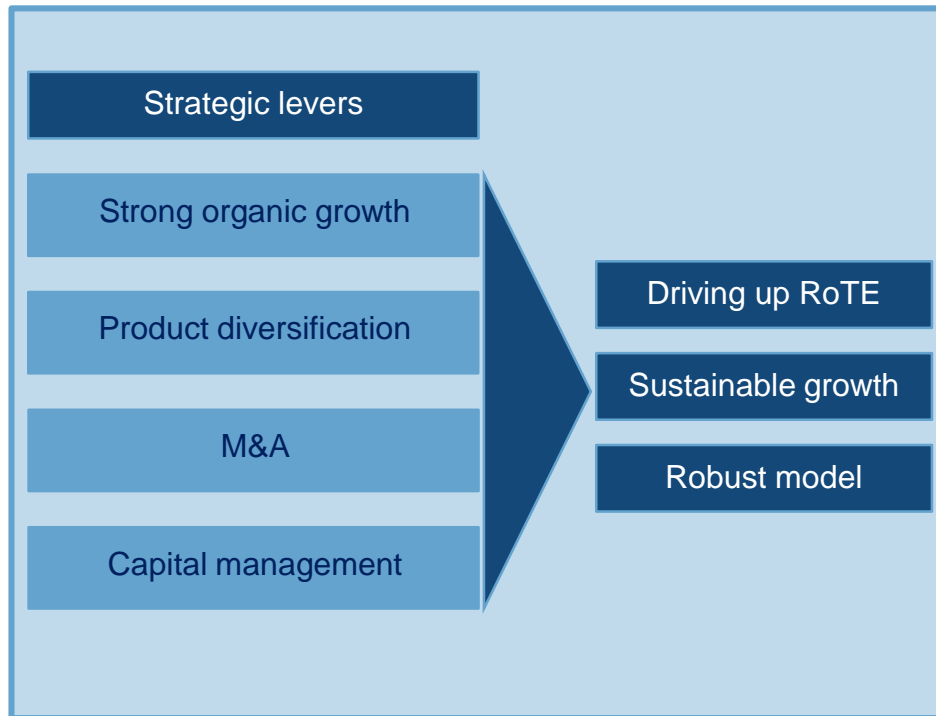


* Reported and underlying figures

Section 2

Strategy and Business Development

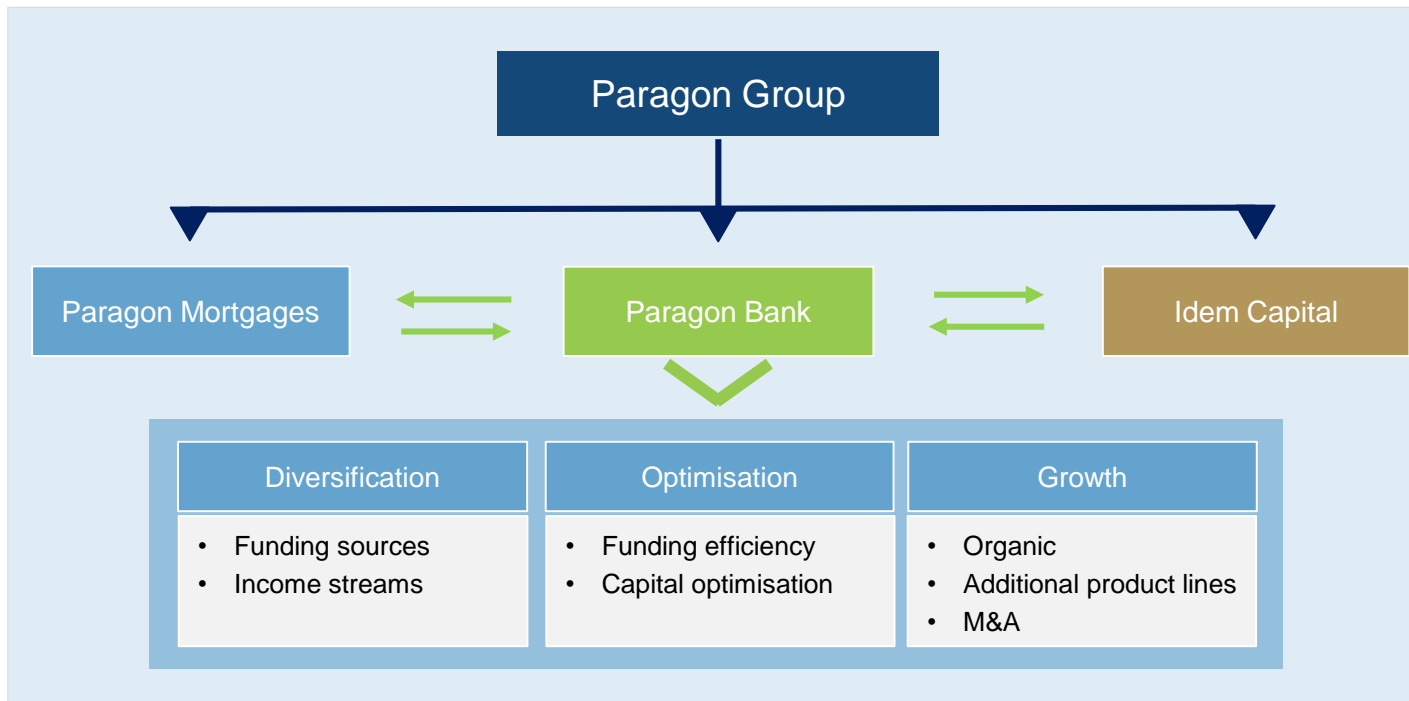
Evolving from a non-bank, securitised, monoline lender to a retail funded, diversified, banking Group



2016 and 2017 transitional period

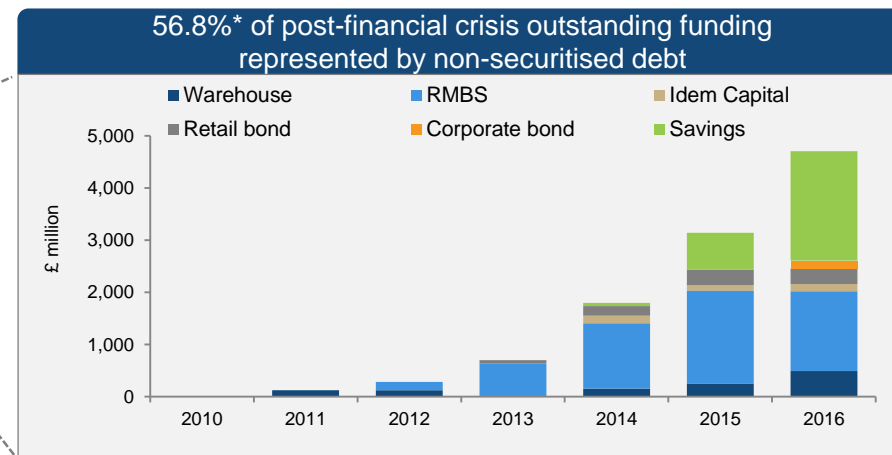
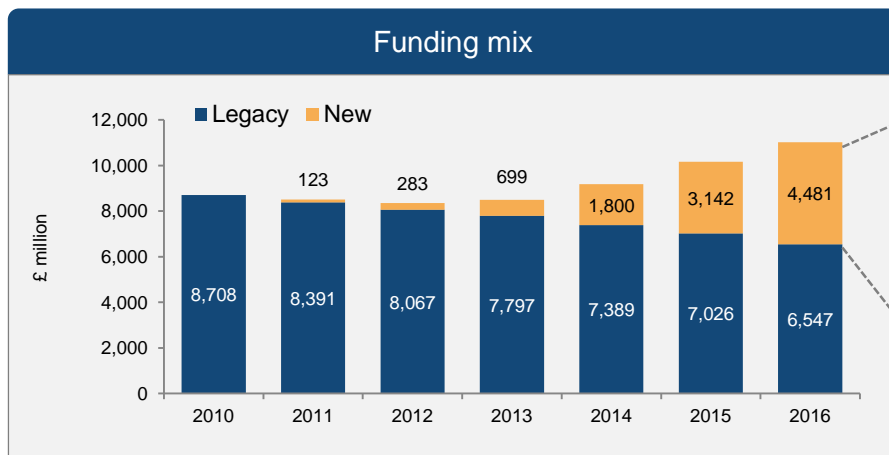
- Capital rebalancing
 - Buy-back programme
 - Tier 2 bond
- Funding restructuring
 - Deposit flows the primary source of funding; securitise opportunistically
- Loan diversification
 - Deposits allow flexibility in asset diversification
 - Six new product lines since 2014
 - Specialist residential mortgages launch early 2017 – PRA/FCA authorisation received

Transition being driven to optimise funding and capital efficiency



- Asset sales from Group to Bank
- Idem Capital/Paragon Bank JV deals
- Majority of new originations funded in the Bank
- £269 million BTL mortgages acquired by Paragon Bank from warehouse post-year end
- Post-crisis securitisations being called and underlying mortgages acquired by the Bank
 - PM17 – February 2016
 - Others will follow
- Supports access to FLS/TFS (currently £108.8 million drawn) – will step up materially over next 12 months

Diversified funding model facilitates sustainable growth



* Including warehouse sale

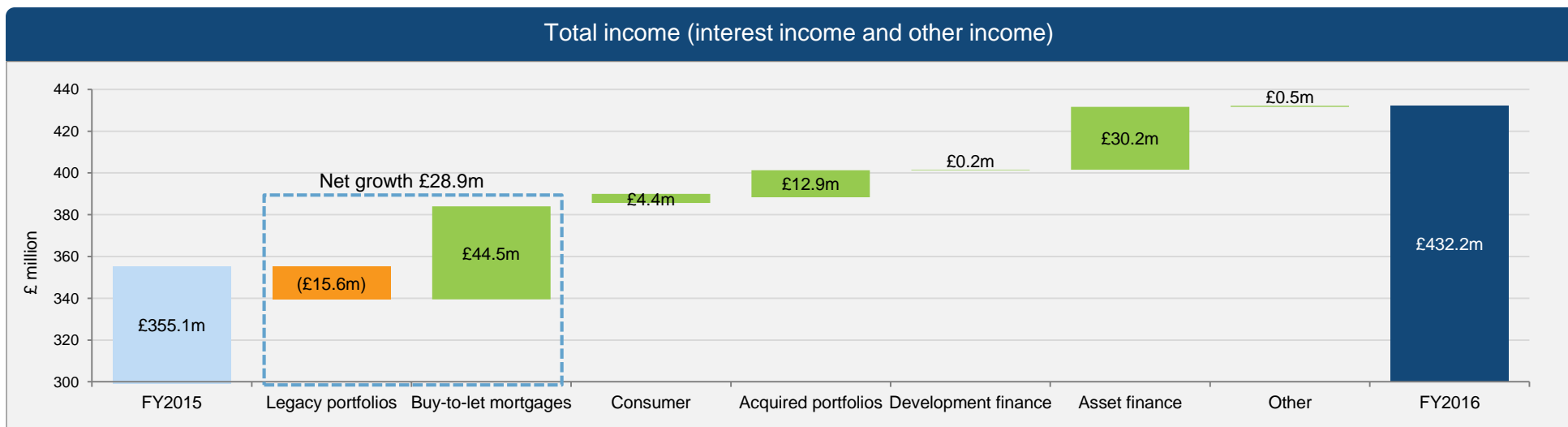
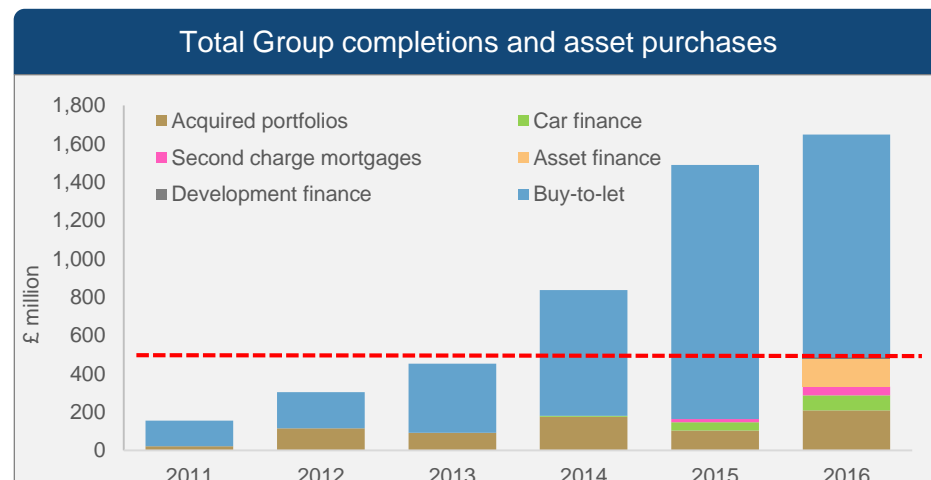
- Diversification has been a key theme in recent years
- Funding strategy
 - Core funding being drawn from deposit market
 - Securitisation will be opportunistic
 - Enables warehouse rationalisation
 - Securitisation refinanced in Bank at call dates
 - Debt portfolio purchases
 - Bank buys performing loans
 - Idem Capital buys paying and NPLs (non-recourse structured debt funding)
- Holding company corporate debt
 - Supports debt/equity rebalancing
 - Investment grade rating (BBB-)

Lending diversification

20

New lending portfolios represent growing proportion of Group assets

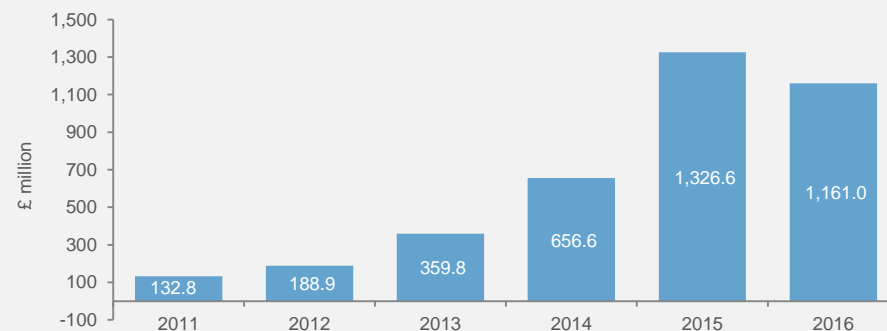
- Proportion of non-BTL lending increased to 29.5% (2015: 11.0%)
- 2016 non-BTL lending exceeded BTL lending of 3 years ago
- Further diversification through consumer, asset finance and development finance – NIM enhancing
- Launch of residential mortgage offering anticipated early 2017
- Diversification creates delayed growth in profits – reflected in cost:income ratio



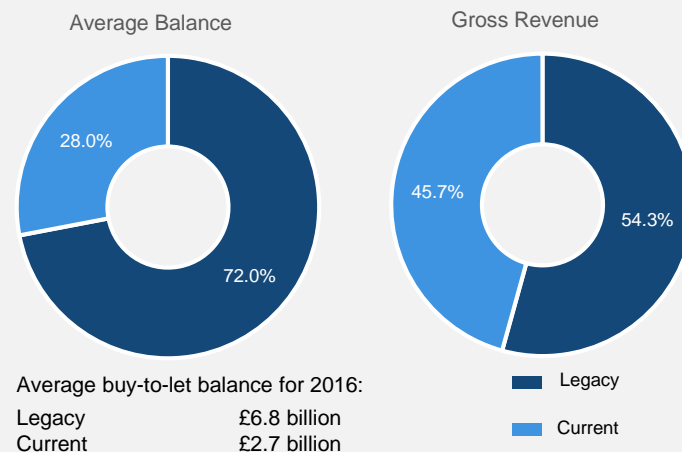
Robust performance in a disrupted period

- 2016 experienced significant activity disruption
 - SDLT changes accelerated H2 business into H1
 - Brexit
- Competitive environment, but Paragon is disciplined on credit and pricing
- Paragon adopted credit tightening in January 2016 ahead of market
 - PRA affordability rules
- New buy-to-let lending contributing increasing share of interest income
 - Supporting widening in NIM
- Redemptions remain low; new portfolio seasoning
 - Temporary uptick around March quarter end
 - Legacy portfolio 6.2% (2015: 4.4%)
 - 5.3% underlying after adjusting for SDLT changes
 - New portfolio 16.2% (2015: 12.1%) in line with expectations
 - Normalising post-SDLT changes
- Credit quality remains exemplary, not just now, but through-the-cycle

Group buy-to-let completions



New buy-to-let lending NIM enhancing



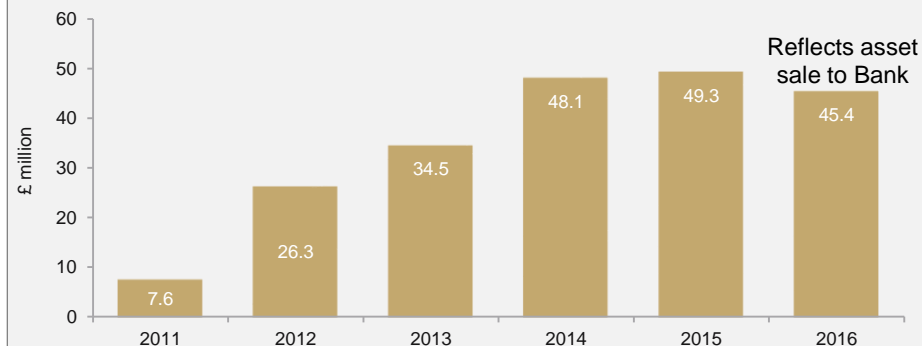
Regulation changes present market share opportunities

- Pipeline showing encouraging recovery
 - 30 September 2016 – £321.1 million (2015: £713.7 million)
 - Approaching 20% increase in October with strong momentum as competition adjusts to new rules
 - Increasing share of “complex” business
- PRA underwriting rules and tax changes likely to create significant opportunity for specialists
 - 1 January 2017 – revised base affordability rules
 - 30 September 2017 – complex underwriting rules apply
 - Remortgages (50-60% flow) – rules unchanged
 - >3 property landlords now deemed “complex”; estimated at 45% of market
 - Commodity lenders dominate market share – top 5 lenders’ market share over 70%
 - Increasing corporate business expected as mortgage income tax changes apply
- New administration seemingly adopting more neutral tone on housing tenure policy
- Basel IV
 - Potential increase in Standardised RWA to be mitigated by IRB – plans progressing well
 - Potential IRB floors will impact UK clearers, creates improvements in relative competitive position
- PRS fundamentals remain positive
 - Underlying tenant demand strong – PRS forecast to be 25% of housing stock over time (LSE)
 - Rents expected to rise to mitigate tax changes (Savills, Jones Lang LaSalle, Capital Economics, Professor David Miles – Imperial College)
 - Buy-to-let lending growth rate likely to ease – Mintel buy-to-let forecast 2016-2020: CAGR 5%
- Leading to slower market growth in BTL, but Paragon should increase market share

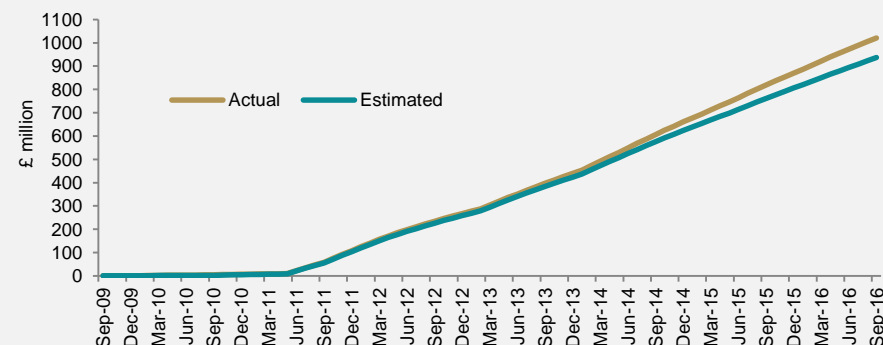
Idem Capital's focus is business-as-usual consumer finance and supporting purchases funded through Paragon Bank

- Strong financial performance
- 30.9% contribution to Group underlying profits
 - £45.4 million in 2016 (2015: £49.3 million)
 - Reflects sale of £102 million of loans to Bank
 - 109.0% (2015: 107.2%) cumulative cash flow of underwriting estimate
- Market remains competitive; however, Idem Capital's pricing and credit disciplines maintained
- £208.8 million net investment (2015: £104.4 million)
 - £24.0 million direct investments
 - £184.8 million acquired by Paragon Bank
- £533.9 million (2015: £451.0 million) balance sheet carrying value, including investment by Paragon Bank
- Brexit caused disruption resulting in transactions being deferred

Idem Capital – operating profit



Cumulative cash flow on acquired portfolios



Strong start to the financial year deal flow

- Post-Brexit, more deals now coming to market – although expect lumpy transaction flow
- Strong start to the current year
 - Pipeline of deals won to date £65.2 million
 - Pipeline of opportunities increasing
 - All deals BAU
- Further opportunities to partner with Paragon Bank – with a focus on performing loan portfolios – partnership approach delivers single point solution to vendors
- Future debt flow expected to be enhanced by regulatory and accounting changes (IFRS9)

Debt purchase and collection market to grow at 5.3% CAGR from 2015-2020 to reach over £1.3 billion

Source: Apex Insight



Profits achieved less than 3 years from launch

Strong performance as Bank becomes Group's core engine for growth and diversification

Buy-to-let

- Accessing Group distribution, optimising funding
- £561.5 million new lending (2015: £350.0 million)
- No arrears
- £117.0 million BTL portfolio (PM17) acquired from Group
- £269 million BTL portfolio acquired from warehouse post-year end

Car finance

- £79.8 million of new lending (2015: £43.9 million)
- Loan book £95.3 million (2015: £43.2 million)
- Delinquency levels immaterial
- Lending growth to build over medium term

Second charge mortgages

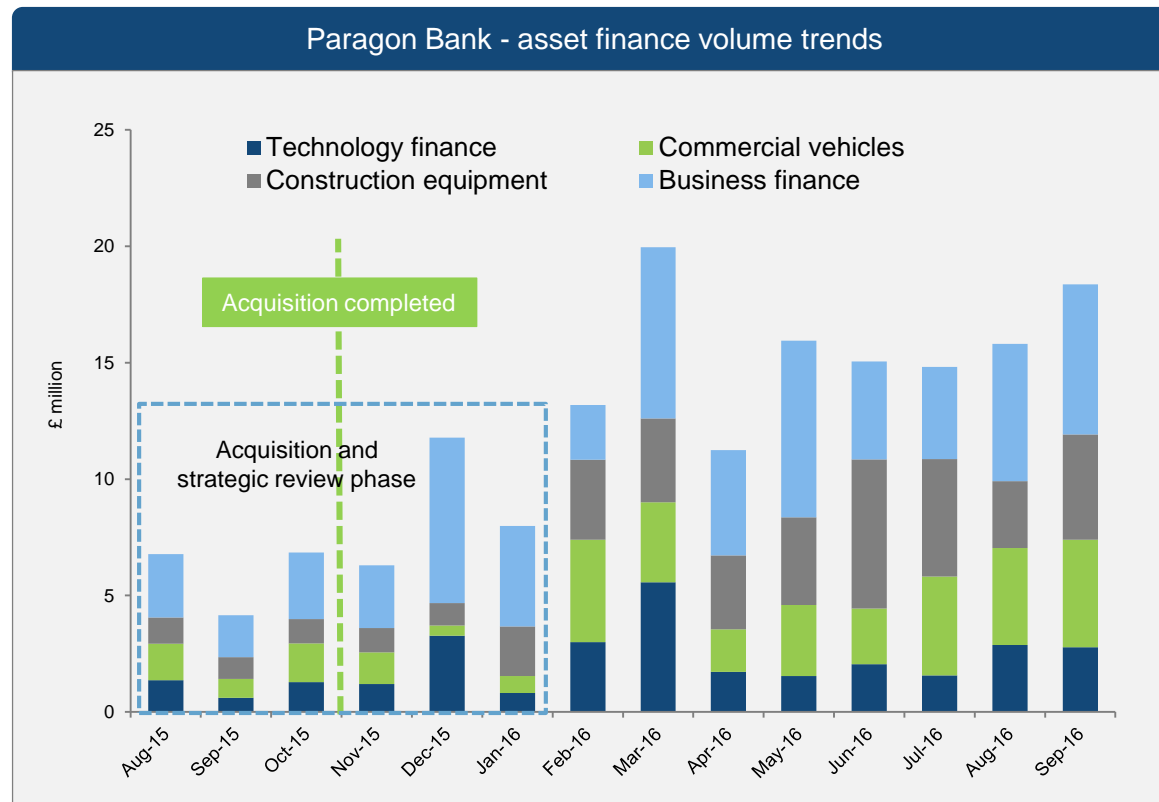
- £44.9 million of new lending (2015: £15.2 million)
- MCOB regulation in 2016 caused some disruption to market flows
- Distribution increasingly extending to mainstream brokers post-MCOB
- £102.0 million portfolio acquired from Idem Capital
- Co-invested with Idem Capital on a £184.8 million secured portfolio
- No arrears
- Average LTV 68.8%

Development finance

- Launched early this year
- Experienced team hired
- Focus on new-build on small developments – underserved market
- Prudent criteria – only senior debt available – only financing experienced developers
- Demand to remain strong for foreseeable future – Government policy supportive

Asset finance leading Group's diversification strategy

- Acquisition of Five Arrows Leasing Group in November 2015 delivered:
 - Strong franchise
 - Excellent credit quality assets
 - Highly experienced management
- Combined asset finance loan book and operating lease balance increased by 23.3% since acquisition to £286.5 million
- Acquisition of Premier Asset Finance completed on 30 September 2016
 - Premier is one of UK's leading asset finance brokerages
 - Sources in excess of £100 million lending pa to a range of SME customers
 - Voted Hard Broker of the Year: Leasing World 2016
 - Acquisition reflects further commitment to deliver material presence in UK asset finance market



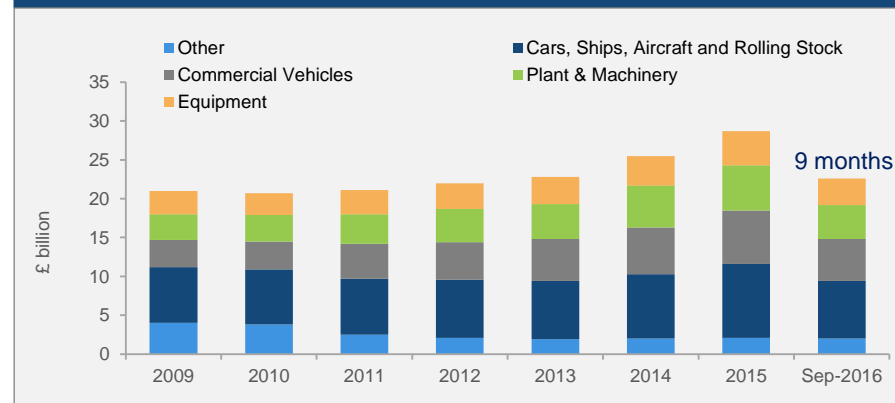
Asset finance provides a platform for strong future growth

- £70.3 billion market, 0.4% current market share
- Significant lending volume upside
- No Brexit impact evident to date

- Post-acquisition strategic review highlighted opportunities to:
 - Enhance distribution
 - Enhance product range
 - Improve operational systems and efficiencies
- Premier Asset Finance will enhance loan book deal flow
 - Opportunity to support its expansion plans
- Product and customer reach extending to larger mid-market
 - To deliver higher volumes, with excellent risk adjusted returns
- Scale and new technology to deliver efficiency benefits – cost:income ratio should improve as business expands

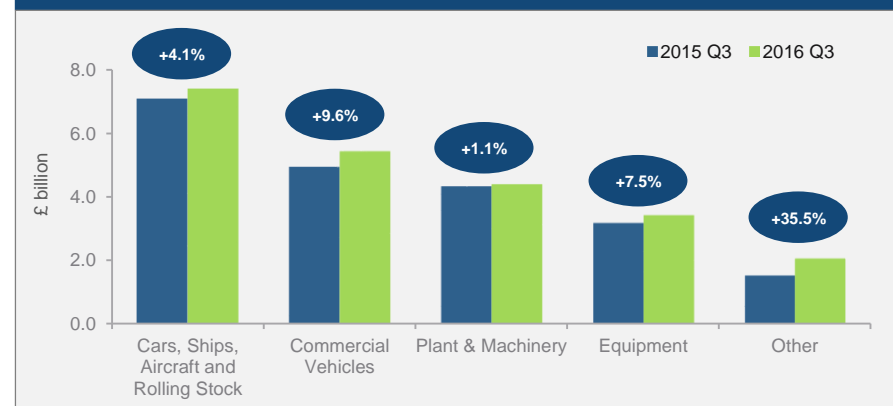
- YTD 2016 asset finance market reported growth of 7.5% in new business volumes to £22.6 billion (2015 Q3: £21.1bn)
- Commercial vehicle finance sector reported strongest new business growth with volumes up 9.6% YTD
- Equipment finance market up 7.5% compared with 2015 Q3

UK asset finance originations



Source: Finance & Leasing Association

Asset finance new business up 7.5% (2016:Q3 v 2015:Q3)



Source: Finance & Leasing Association

- **Strong financial performance**
 - Challenging environment
 - Credit and pricing disciplines maintained
 - Underlying RoTE 13.2%
 - FY2017 encouraging start in new business flows
- **Transformational period of change**
 - Capital rebalancing
 - Funding restructuring towards the Bank
 - Increasing income diversification
- **Uncertainties remain ...**
 - Macro-economic
 - Regulatory
- **... but Paragon is well positioned to adapt and benefit**
 - Strong capital base
 - Outstanding credit profile, not just now, but through-the-cycle
 - Structural changes support specialist model
 - Regulatory changes can bring relative competitive benefits
 - Platform in place to support strong sustainable growth

Appendices

Group loan portfolio development - optimising capital and funding

30

12 month net loan book growth of £0.7 billion

£ million	Balance Sep-2015	Net lending (exc purchases)	Net purchases / Acquisitions	Inter-Group purchases	Balance Sep-2016
Buy-to-let mortgages	8,999.1	(281.5)	-	(116.6)	8601.0
Residential mortgages (legacy)	47.6	(28.2)	-	-	19.4
Consumer lending (legacy)	175.0	(27.4)	-	-	147.6
Paragon Mortgages	9,221.7	(337.1)	-	(116.6)	8,768.0
Idem Capital	432.9	(71.6)	24.0	(102.0)	283.3
Buy-to-let mortgages	349.6	540.3	-	116.6	1,006.5
Consumer lending	58.2	91.2	-	-	149.4
Development finance	-	9.1	-	-	9.1
Debt purchase	-	(36.2)	184.8	102.0	250.6
Asset finance	-	48.9	221.7	-	270.6
Paragon Bank	407.8	653.3	406.5	218.6	1,686.2
Net loan book	10,062.4	244.6	430.5	-	10,737.5

A further £269.0 million of BTL mortgages sold to Paragon Bank in October 2016

Appendices

Introduction to Paragon

UK's leading independent specialist lender

- 30 year track record, FTSE 250 with c£1 billion market capitalisation
- £12.7 billion of loan assets under management

Industry leading underwriting and special servicing

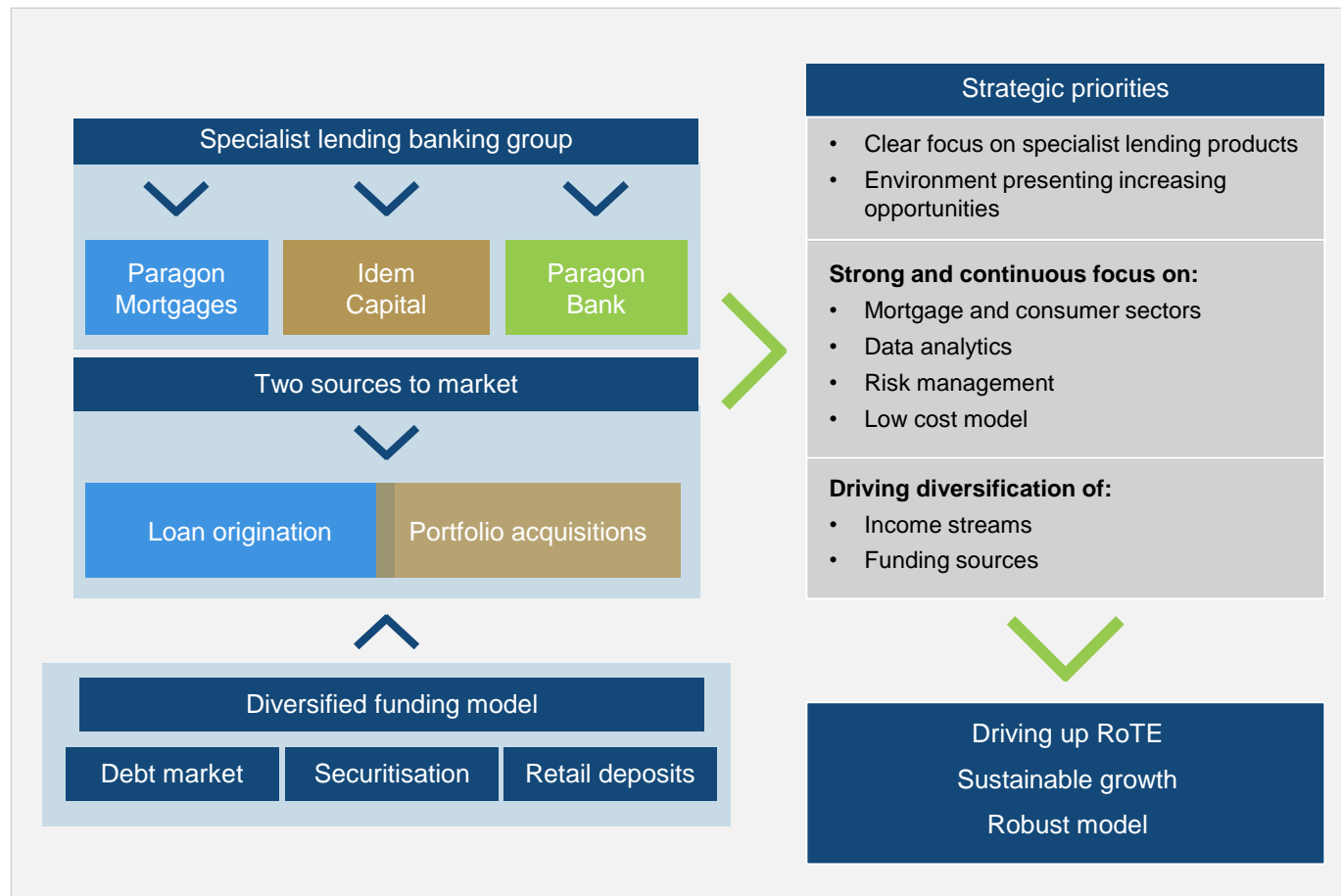
- Buy-to-let arrears significantly below industry averages
- Strong special servicing capabilities
- Comprehensive data analytics and risk management skills

Experienced management team

- Stable management team with extensive through-the-cycle experience

Significant growth opportunities

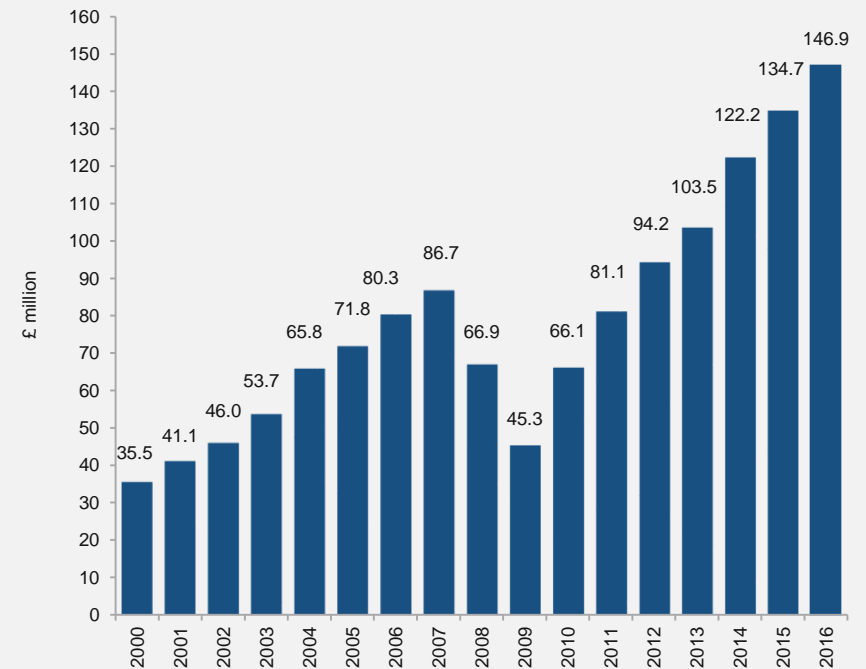
- Private rented sector long-term structural growth
- Debt purchase market opportunities increasing
- Developing UK banking subsidiary – diversification of income streams



Strong profit record

- Long track record, profitable through-the-cycle
- 2016 record underlying profits of £146.9 million
- Strong operational net cash flow over £166 million before investments and dividends
- Highly efficient model – underlying cost:income ratio 36.7%

Underlying long-term profit trends



Leveraging our underwriting and servicing expertise

Paragon Mortgages

- Leading independent buy-to-let lender – niche, specialist strategy
- Distribution primarily via intermediaries
- Market-leading credit standards
- In-house surveyors and receiver-of-rent functions

Idem Capital

- Leading UK consumer debt purchaser
- Over 20 years experience in loan management – serviced c1.5 million accounts
- Contributed 30.9% to 2016 Group profits
- Leading special servicing capability

Paragon Bank

- Launched in 2014
- No branch network
- Utilises Group's services to optimise cost efficiency
- Product lines:
 - savings
 - car finance
 - second charge mortgages
 - buy-to-let
 - residential development finance
 - SME asset finance

Through-the-cycle management experience

29
years

Executive director average
Paragon duration

16
years

Executive management team

9
years

Paragon's average length of
service - 2x national average

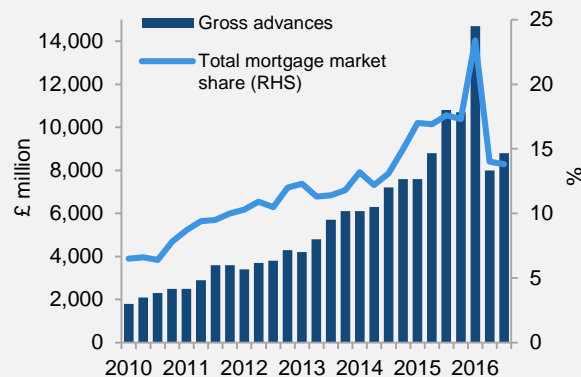
12
years

Paragon's management level
average length of service
- 3x national average

- Investors in People Champion status – held by only 1% of UK financial services companies
- Principles learnt through recession in early 90s and credit crisis embedded into business
- Strong culture and values



Buy-to-let industry – lending

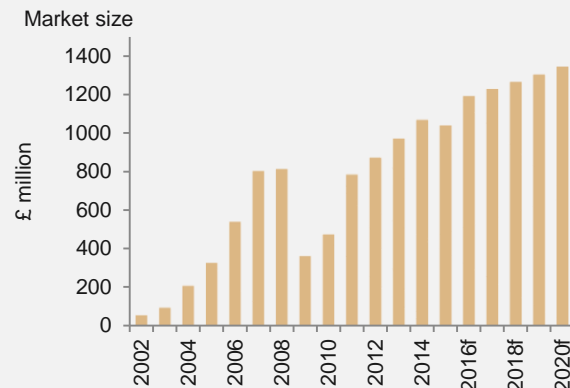


Source: DCLG / Council of Mortgage Lenders

Paragon Mortgages

- Strong rental demand
- PRS now accounts for 19.6% of English housing – second largest housing stock
- PRS forecast to exceed 25% of stock
- Buy-to-let market experiencing strong growth
- Up 15.8% YTD 2016 to £31.5 billion (2015: £27.2 billion)
- Regulatory and fiscal changes may slow rate of growth (Mintel CAGR 5%)
- Market may see increasing share of complex business – will support growth of specialist banks

Debt purchase market

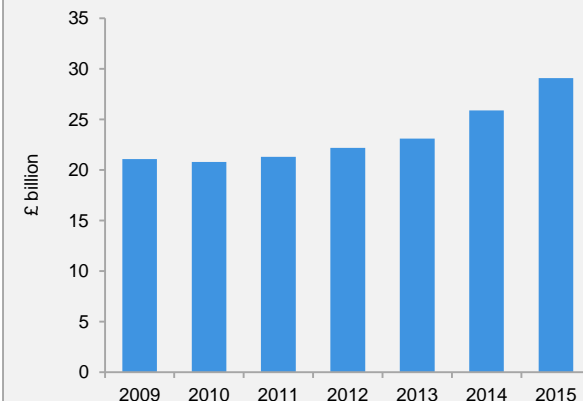


Source: Apex Insight

Idem Capital

- Well established £1.0 billion+ pa core debt purchase market – forecast to grow by 5.3% CAGR from 2015-2020
- Additional bank de-leveraging sales take opportunities to £2 billion+ pa
- Market participants
 - Specialist debt buyers
 - Banks
 - Hedge funds
 - Bond funds
- Debt availability increasing to support asset purchases and refinance existing assets
- Growing proportion of paying-debt sales

UK asset finance originations



Source: Finance & Leasing Association

Paragon Bank

- Positive economic outlook
- 40% of UK savings through online
- Consumer finance market expected to increase by £31.0 billion to reach £293.0 billion by 2020
- Paragon Bank anticipating regulatory changes ahead of the market
- Car finance market £24.6 billion in YTD 2016 up 12.8% year-on-year
- Secured loan market grew by 7.9% YTD 2016 to £654.0 million
- Asset finance market £22.6 billion in 2016 up 7.5% year-on-year

[Appendices](#)

[Company Overview](#)

Key facts

Established	1985
AUM	£12.7 billion
TNAV	£864.1 million
Index	FTSE 250
Market cap	c£1.0 billion*
Employees	1,298
Location	HQ: Solihull West Midlands

* As at 18 November 2016

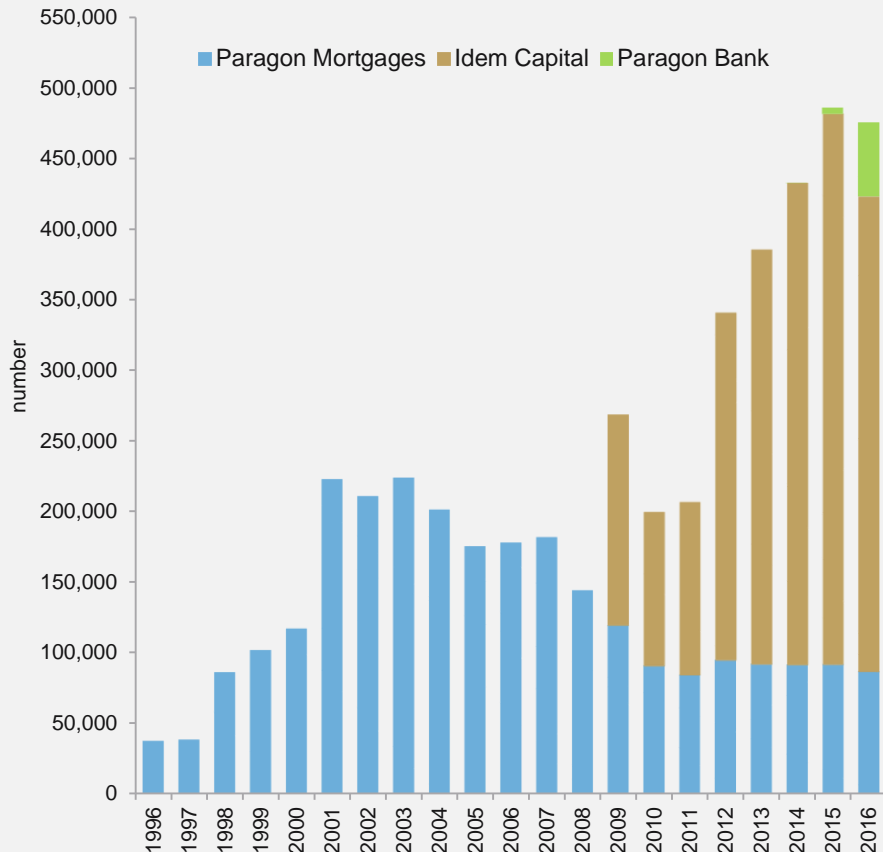
History

- 1985 — Launched as a specialist lender, fully listed on LSE
- 1986 — Acquired first loan portfolio
- 1987 — Completed first securitisation in UK mortgage market
- 1995 — Launched first buy-to-let products
- 2002 — Admitted to FTSE 250
- 2003 — Acquisition of Mortgage Trust (c£2 billion portfolio)
- 2009 — Launched Idem Capital and Moorgate Loan Servicing
- 2010 — Re-commenced buy-to-let lending
- 2011 — First post-credit crunch securitisation launched
- 2013 — First retail bond raised £60 million
- 2014 — Second retail bond raised £125 million
- 2014 — UK banking subsidiary – Paragon Bank – launched
- 2014 — Idem Capital-specific funding raised
- 2015 — Third retail bond raised £112.5 million
- 2015 — Acquisition of Five Arrows Leasing Group (£245 million total assets)
- 2016 — Fitch reaffirmed BBB- investment grade rating with stable outlook
- 2016 — Acquisition of Premier Asset Finance

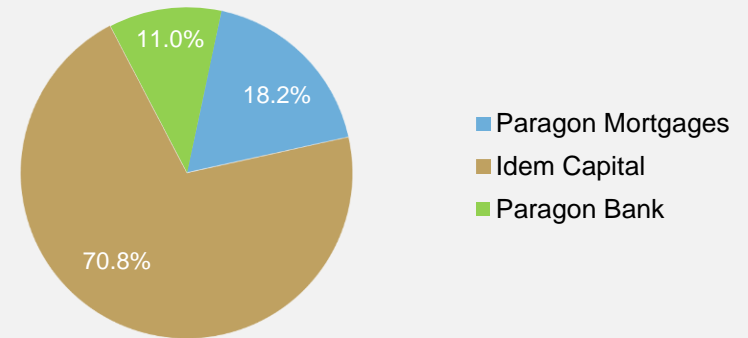
Segmental loan assets

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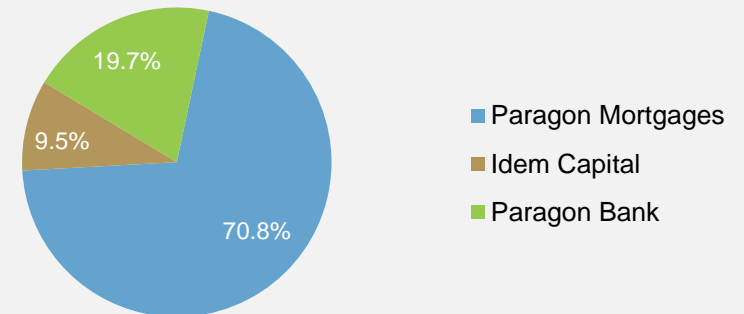
Total accounts under management



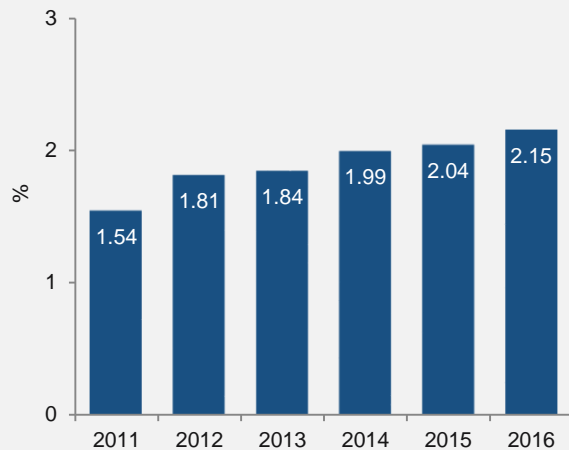
Accounts under management - number



Accounts under management - value

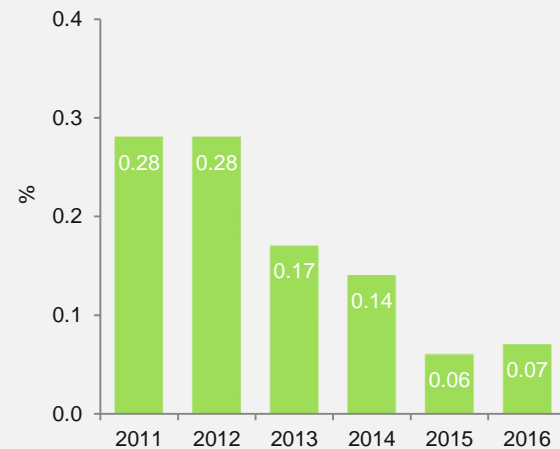


Net interest margin



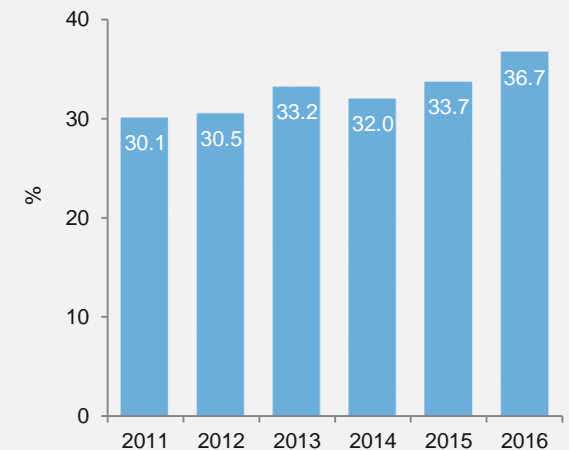
- Wider margin on new mortgage loans
- Idem Capital assets delivering strong cash flows
- Paragon Bank's retail deposit funding improving margins
- Lower interest rates reduce margin

Impairments as % of total loan assets (annualised)



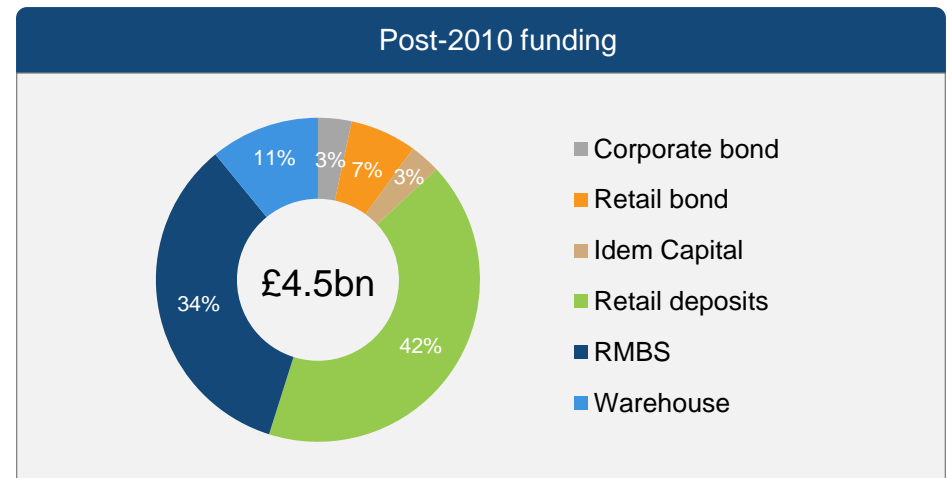
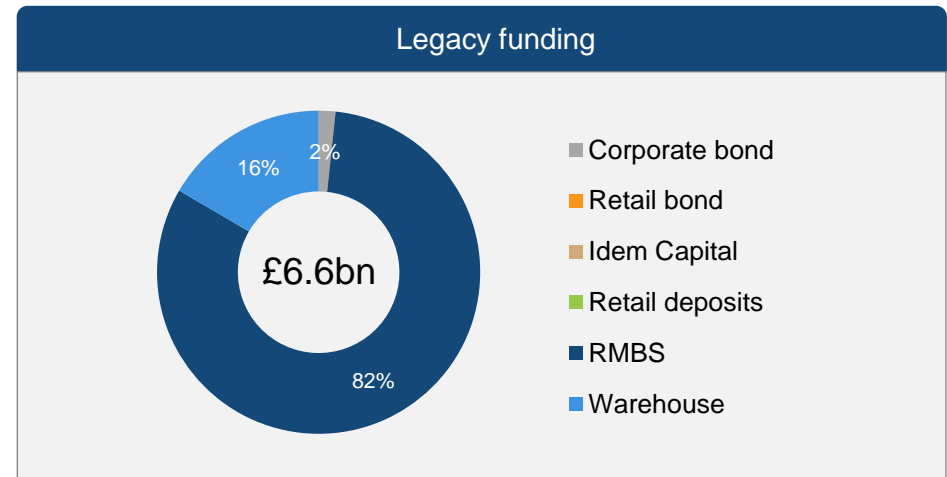
- Charge of £7.7 million includes Asset Finance
- Nil impairment charge on Idem Capital as asset performance better than expectations

Cost:income ratio (underlying)



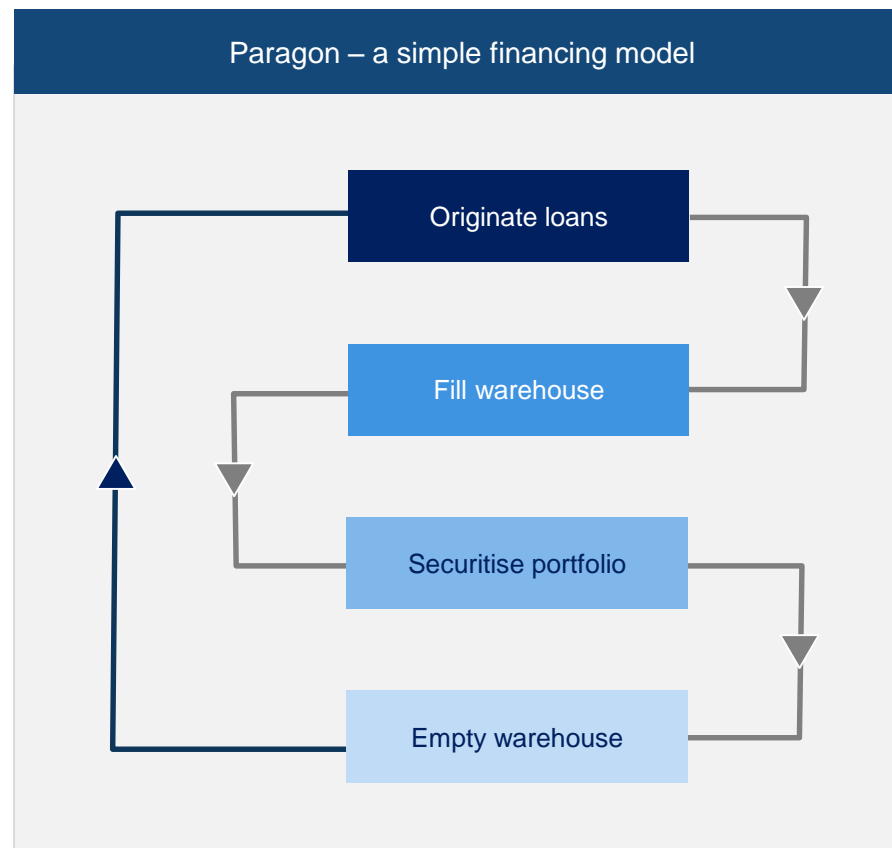
- Cost:income ratio remains a key strategic differentiator for Paragon
- Cost:income ratio for 2016 reflects the cost base consolidation of Five Arrows Leasing Group acquisition

- Retail deposit raising activity through Paragon Bank
 - Over £2 billion of deposits raised
 - Significant capacity via £1.3 trillion market
- FLS drawings of £108.8 million
- Anticipated access to Bank of England's Term Funding Scheme in Q1 2017
- Paragon Group – holding company debt
 - Subordinated £110.0 million corporate bond – April 2017 maturity – 3.729%
 - Subordinated £150.0 million corporate bond – September 2026 maturity – 7.250%
 - Subordinated £60.0 million retail bond – December 2020 maturity – 6.0%
 - Subordinated £125.0 million retail bond – December 2022 maturity – 6.125%
 - Subordinated £112.5 million retail bond – August 2024 maturity – 6.0%
 - Investment grade rating (BBB-) to support future debt issuance
- Portfolio purchases
 - Idem Capital assets held in limited recourse SPVs
 - Funded from Group's free cash resources / structured debt
 - £203.3 million raised through re-leveraging certain Idem Capital assets
 - Partnership approach with Paragon Bank increasing

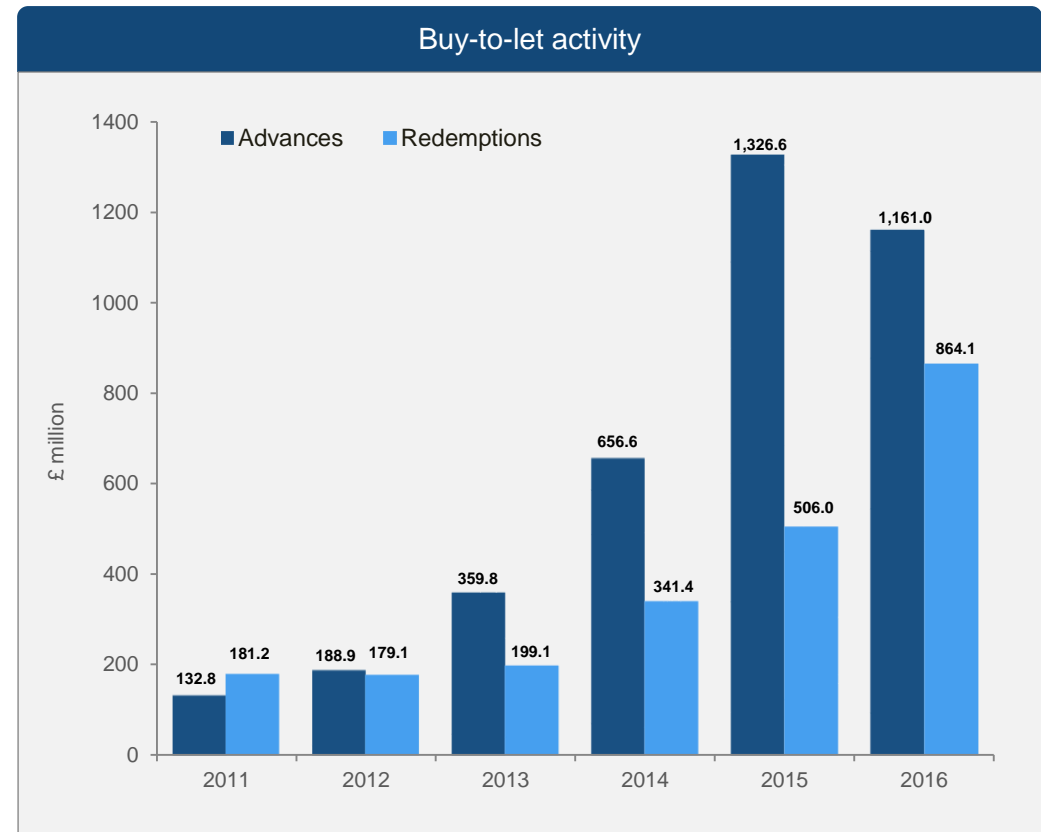


One of the UK's leading securitisation issuers

- Extant assets - £8.8 billion funded through 22 limited recourse wholly owned SPVs and 3 warehouse facilities
- New origination
 - £850 million warehouse facilities
 - After a few months, assets transferred to securitisation vehicle
- Since 2010, nine transactions, raising £2.5 billion
- Retail deposit funding of new lending through Paragon Bank allows tactical use of securitisation markets when conditions suit



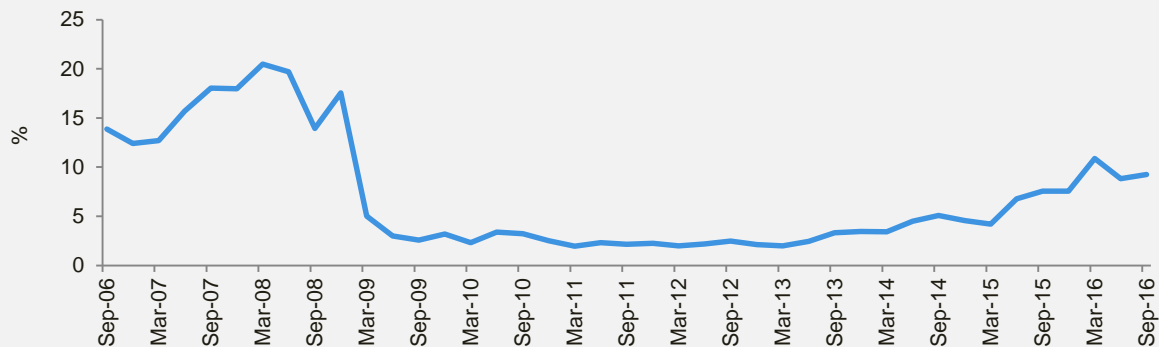
- Buy-to-let lending £1,161.0 million (2015: £1,326.6 million)
- Total new lending since return to market £3,825.7 million
- Pipeline stood at £321.1 million as at 30 September 2016 (2015: £713.7 million)
 - Approaching 20% increase in October, with strong momentum as competition adjusts to new rules
- Credit quality remains strong
 - New buy-to-let portfolio
 - Average LTV 65.8%
 - Average ICR 152.3%
- Arrears fell to 11bp (2015: 19bp)



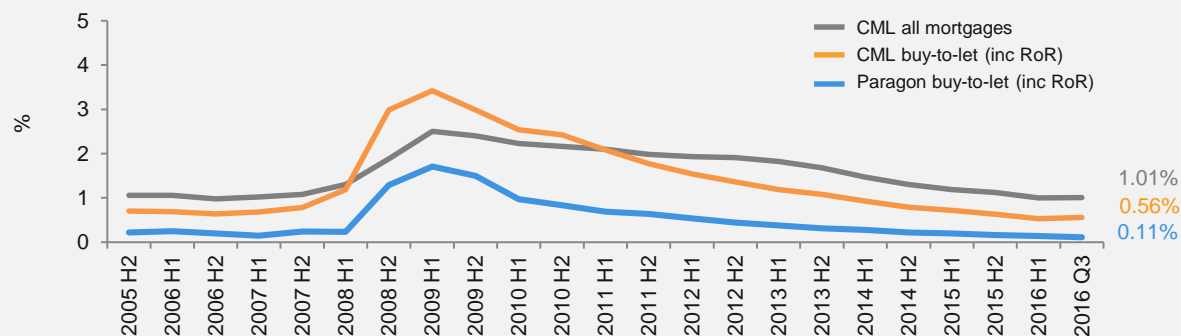
Buy-to-let portfolio performing strongly

- Buy-to-let redemption rate, at 9.1%, impacted by recent tax changes (2015: 5.8%)
- Buy-to-let credit performance remains strong – 3 months+ arrears fell to 11bp (2015: 19bp)

Buy-to-let redemptions



Buy-to-let 3 months+ arrears

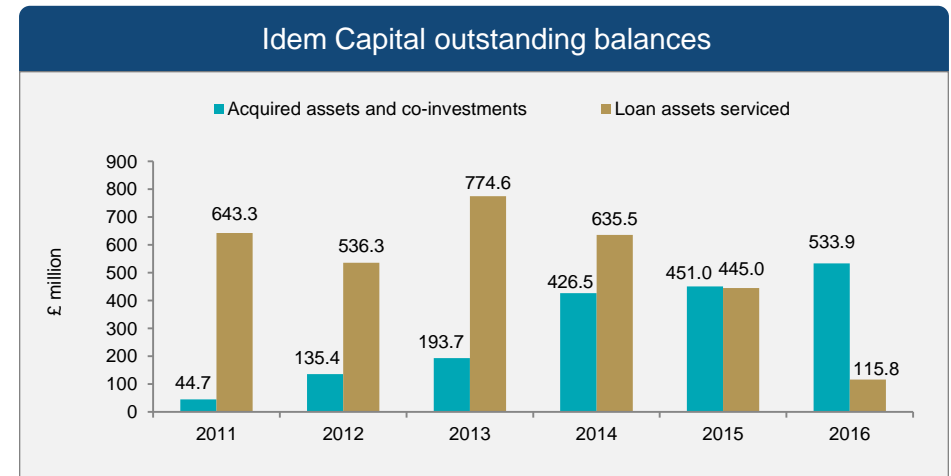
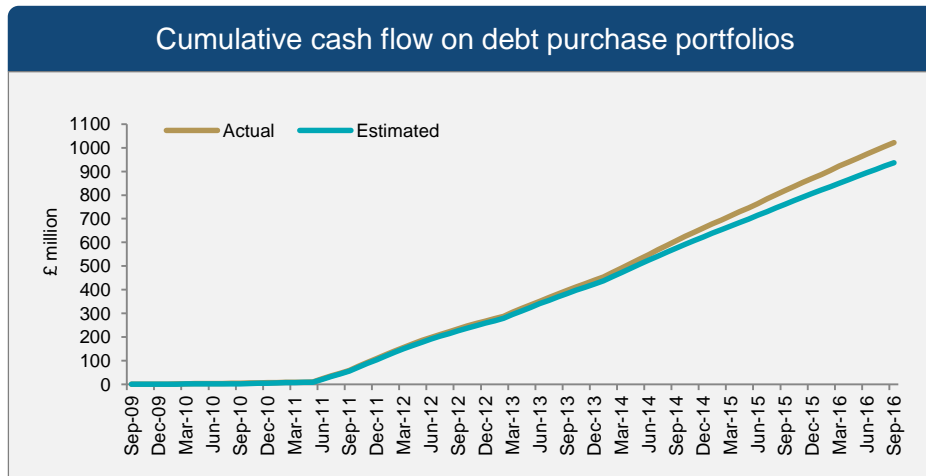
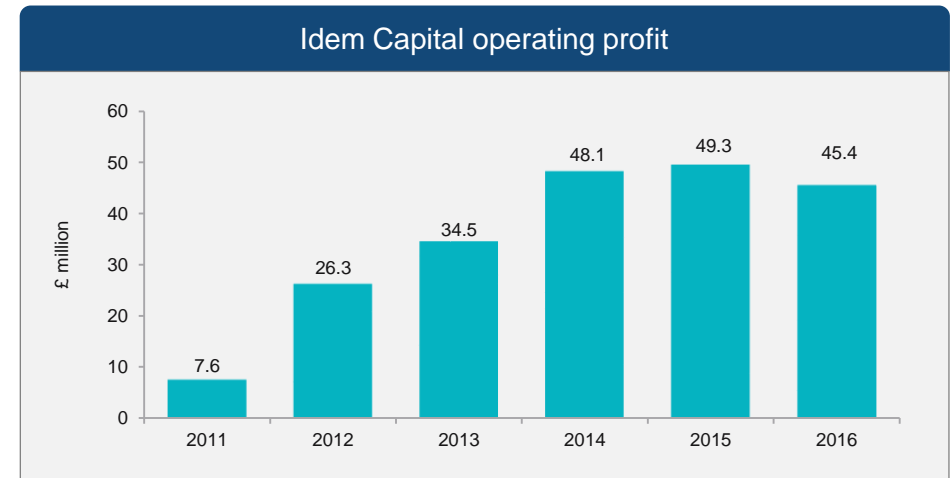


Source: Council of Mortgage Lenders

Idem Capital is a leading UK consumer debt buyer

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- Significant driver of Group profit
 - Contribution of £45.4 million in 2016 (2015: £49.3 million)
- Portfolio investments
 - £24.0 million invested in unsecured accounts in 2016
 - Further investment of £184.8 million in conjunction with Paragon Bank
 - Outstanding investment value at 30 September 2016 - £533.9 million
- Strong pipeline of large scale further acquisition opportunities
 - Business-as-usual is increasingly paying-debt sales
 - Bank de-leveraging process ongoing
 - Servicing standards more important in new regulatory environment
- Cumulative cash flow improves to 109.0% of underwriting estimate
- Increasing emergence of substantial performing/mortgage deals



- Improved funding creates opportunities to own assets rather than service

Pre-2007 buy-to-let legacy portfolio

- Well seasoned
- High ICRs (current estimate 3.7 times on average)
- LTV average 67.8%

Post-2010 buy-to-let new lending

- Very high credit quality
- LTV average 65.8%
- Average ICR 152.3%
- Strong additional non-property income
- 93.0% of new flow is fixed rate

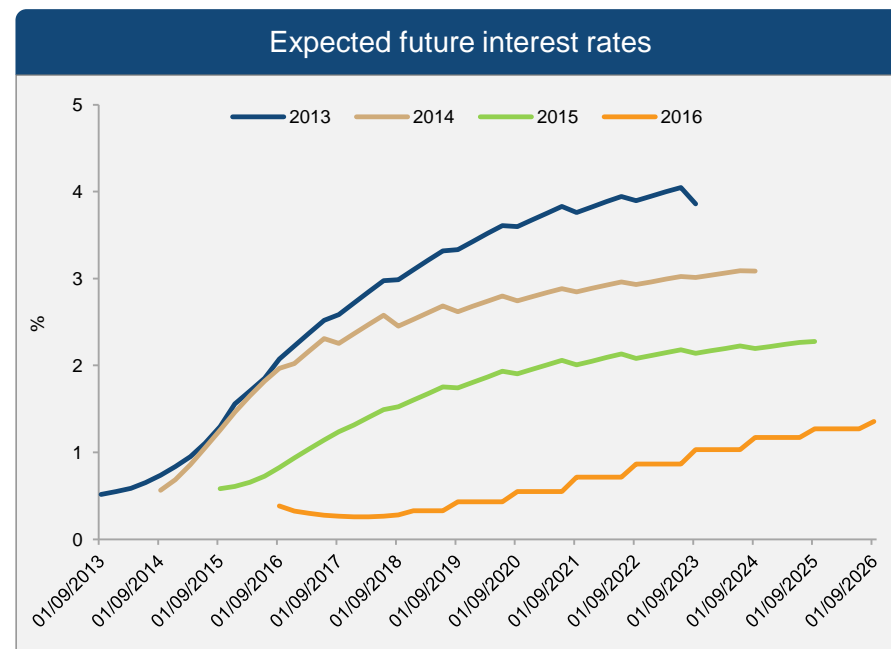
Second mortgage portfolio

- House price appreciation and capital repayments continue to improve LTVs
- Average seasoning of over 9 years

Asset finance and car finance

- Loan portfolios are fixed rate

- Likely to see slow and graduated interest rate increases
- High quality loan portfolios mitigate risk of rate rises



Regulatory environment in UK witnessed significant changes in recent years, raising challenges for domestic financial institutions - this is expected to continue.

Paragon's approach focused on anticipating regulatory developments, preparing well in advance and successfully managing through regulatory change to the benefit of our customers, franchise and financial performance.

Buy-to-let

- EU Mortgage Credit Directive implemented in March 2016
 - Applies to consumer BTL only
- SDLT changes took effect from April 2016
- Tax relief on mortgage interest payments reduced to basic rate; being phased in from 2017
- PRA new underwriting rules with effect from 1 January 2017

Consumer finance

- CCA responsibilities transferred from OFT to FCA
 - Full authorisation granted
- Second mortgage loans now supervised by FCA subject to MCOB variant with effect from March 2016

On-going changes in capital requirements

- Basel Risk Weighting Review
 - IRB v standardised
 - IRB floors
- Group IRB project underway

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