

Trading Update

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Paragon Group Of Companies PLC

29 July 2016

THE PARAGON GROUP OF COMPANIES PLC

Trading Update

The Paragon Group of Companies PLC ("the Group" or "Paragon") today publishes its Trading Update based upon the business performance from 1 October 2015 to date, including a commentary on the unaudited financial information for the period from 1 October to 30 June 2016.

Financial performance

Underlying operating profits (before fair value items and acquisition related costs) were £109.9 million, 12.1% higher than £98.0 million reported for the corresponding period in the previous year, in line with management's expectations. After £2.8 million incurred in connection with the Group's acquisition of the Five Arrows Leasing Group, completed on 3 November 2015 and a fair value charge of £0.8 million, pre-tax profit was £106.3 million for the period (2015 Q3 YTD: £97.5 million), an increase of 9.0%.

Trading activity

The Group's loan portfolios have maintained their strong performance in credit, profit and in cash flow.

Buy-to-let lending for the nine months to 30 June 2016 was £989.6 million, 21.2% higher than £816.5 million for the corresponding period in 2015. Paragon Bank funded 45.7% of buy-to-let, compared to 22.8% at 30 June 2015. As expected, new lending levels slowed during the third quarter to £166.0 million following the disruptions to the market caused by the combination of stamp duty changes and uncertainty in the run up to the referendum. The Group continues to maintain a disciplined approach to pricing and credit, including having taken an early decision to raise minimum affordability tests in January 2016 to reflect future landlord tax relief changes. The pipeline at 30 June 2016 stood at £339.0 million compared to £350.6 million at the start of the quarter.

The credit performance of the Group's buy-to-let portfolio remains exemplary, with 13 basis points of arrears (using the CML's three month plus measure) at 30 June 2016 compared to 20 basis points at the same point in 2015. This remains considerably better than the CML's latest comparable market average of 0.56%.

Redemption levels increased in Q2 due to stamp duty changes. The redemption rate reduced in Q3 and is now trending more in line with longer term expectations.

Asset finance volumes (including operating leases) since the acquisition date in November 2015 have increased to £101.4 million with £42.2 million advanced in the latest quarter, showing further progression on the £41.1 million achieved in 2016 Q2. The re-branding of the business and the IT separation from Rothschild & Co have gone well with efforts now being focused on enhancing both front end and support systems to underpin stronger growth rates.

Paragon Bank's consumer lending activities continue to develop. Car finance advances for the nine months of £61.5 million compare to the £28.2 million advanced at the same point in 2015 and secured lending volumes rose to £35.2 million (2015 Q3 YTD: £7.6 million).

Paragon Bank's recently launched residential development finance operation has seen £3.1 million drawn-down to date and is developing a strong pipeline of attractive opportunities.

Idem Capital made no new investments during the quarter. It continues to see a range of interesting investment opportunities, including those made possible through its collaboration with Paragon Bank, however, the result of the EU referendum has caused a number of anticipated sales processes to be deferred until later in 2016 or 2017.

Funding

Retail deposit balances rose to £1,575.7 million at the quarter end (2015 Q3: £387.9 million) and Paragon Bank made its first drawing (£109.2 million) under the Funding for Lending Scheme ("FLS") during the period.

The Group remains highly cash generative, with strong cash flow performance from its various loan portfolios. Free cash balances rose to £231.9 million at 30 June 2016.

Capital

The Group's capital ratios remain strong, with its CET1 and leverage ratios standing at 16.2% and 6.7% respectively at the end of June. The Group's plans to convert from a standardised basis for assessing capital adequacy to an internal ratings (or IRB) basis are progressing well.

Further progress has been made on delivering the additional £50 million share buy-back programme announced in November 2015, with over £41 million having now been completed.

Outlook

Normal trading has been disrupted by stamp duty changes on buy-to-let property purchases and uncertainty ahead of the EU referendum. There is the potential for further disruption following the referendum vote, although it is too early for the scale of this to be determined. Naturally we will monitor market conditions closely.

However, our view continues to be that a number of regulatory and fiscal changes, whilst dampening the rate of growth of the buy-to-let market, will create opportunities for market share gains for specialist lenders.

The Group's strong balance sheet and increasing income and funding diversification leave it well placed to respond effectively to these uncertainties in the financial markets and the inevitable opportunities that will arise as we pursue the four levers of our strategy.

The Group expects to deliver profits for the 2016 financial year in line with management's expectations.

The Group intends to announce its results for the year ending 30 September 2016 on Wednesday 23 November 2016.

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