

**THE PARAGON GROUP OF COMPANIES PLC**

**Trading Update**

The Paragon Group of Companies PLC ("the Group" or "Paragon"), the specialist lender and banking group, today publishes its Trading Update based upon the business performance from 1 October 2016 to date, including a commentary on the unaudited financial information for the period from 1 October to 31 December 2016.

**Financial performance**

Underlying operating profits for the quarter of £33.1 million were in line with management's expectations and were supported by good underlying trends in volumes, margins, cost control and bad debts. As previously guided, the carry cost of the Group's subordinated bonds will dampen reported profits in the early part of the year prior to the repayment of the £110 million bond maturing in April 2017.

**Trading activity**

Each of the Group's lending and investment entities generated quarter on quarter volume growth, with total originations and investments of £380.7 million compared to £254.4 million in the previous quarter as detailed below:

£ million	Q1 2016	Q4 2016	Q1 2017
Buy-to-let	400.9	171.3	185.2
Asset finance*	17.9	49.0	55.7
Car finance	20.6	18.5	20.7
Second mortgages	11.4	9.6	13.6
Development finance	0.0	6.0	10.1
Idem Capital	9.8	0.0	95.4
<b>Total</b>	<b>460.6</b>	<b>254.4</b>	<b>380.7</b>
<i>Of which BTL</i>	<i>87.0%</i>	<i>67.3%</i>	<i>48.6%</i>

\* Q1 2016 represents 2 months due to the completion of the Five Arrows acquisition on 3 November 2015

Throughout the final months of 2016 the buy-to-let market saw lenders tightening criteria ahead of the PRA underwriting changes which took full effect on 1 January 2017. Paragon had implemented the majority of these changes a year ago, in January 2016, and, as market criteria tightened during the last quarter, the Group's pipeline continued to grow from its low point in the summer. It is too early to determine the full extent of the PRA changes on the market, and the further changes due later in the year, however the strong pipeline, as detailed below, positions the Group to achieve its anticipated new business volumes for the year.

Month end pipeline	December 2015	September 2016	December 2016
Buy-to let	£595.7 million	£321.1 million	£639.8 million

Idem Capital had a strong trading period, with £95.4 million of gross investments, following the temporary withdrawal of vendors from the market around the EU referendum. Idem Capital continues to see a healthy pipeline of opportunities.

The asset finance business maintained its post-acquisition quarter-on-quarter growth trend. The upgrade to the division's new business systems is scheduled to be delivered at the end of the current quarter, which is expected to support further volume growth.

The Group's specialist residential mortgage proposition is currently in its soft-launch phase, with a roll-out to a broader distribution network scheduled over the coming months.

All portfolios have been performing strongly in cash and credit terms, and continue to display positive behavioral score characteristics when compared to the position a year earlier.

### **Funding**

The Group's funding focus continues to be based upon its retail deposit taking activities through Paragon Bank, where deposit levels grew further during the quarter to £2.03 billion (December 2015: £1.05 billion). Immediately after the period end, Paragon Bank made its first drawing under the Bank of England's new Term Funding Scheme, to support further lending growth and we expect additional drawings over the rest of the year. This focus of retail deposit funding has resulted in the Group not renewing one of its warehouse lines, resulting in aggregate re-draw facilities reducing by £300 million from its position at the Group's 2016 year-end.

Free cash balances stood at £269 million at the quarter end, having financed the strong Idem Capital flows in the period and the annual equity injection of £78.1 million to Paragon Bank to support its 2017 growth. External debt is expected to be raised against the Idem Capital assets during this quarter.

### **Capital**

The Group continues to benefit from strong capital ratios and the Group's CET1 ratio rose to 16.1%\* at the quarter end.

Good progress has been made with the share buy-back programme, with over 25% of the year's £50.0 million investment being made.

### **Outlook**

The Group continues to see progress in each of its operating divisions and remains confident in achieving its expectations for the year.

Nigel Terrington, the Group's Chief Executive, said:

*"We have made a strong start to a year that will see the Group continue its transition to a lending and operational model that is orientated around Paragon Bank. The lending growth we have seen in asset finance is encouraging and reflects the increasing diversification of the Group. Lending across all divisions and the strong growth in the buy-to-let pipeline bodes well for the year as a whole".*

The Group intends to announce its half-year results for the six months ending 31 March 2017 on Tuesday 23 May 2017.

*\* based on unverified reserves*

*For further information, please contact:*

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