2017 HALF-YEAR FINANCIAL RESULTS

THE PARAGON GROUP OF COMPANIES PLC

paragon

Agenda

Section 1	Financial Results
Section 2	Strategy and Business Development

Results highlights

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

Strategic delivery

- Transitioning to specialist banking model progressing well
- Increasing opportunity to exploit structural changes in banking towards specialist lending
- New business flow increasingly moving towards specialists in core BTL market – with a strong pipeline entering H2 – returns maintained
- Further strong growth in non-BTL specialist lending (+68.5%)
- Retail deposit funding £2.3 billion (+25.3% since year end), now exceeds £2.5 billion
- First drawings under TFS in H1 – more to follow in H2

Improving returns and strong capital base

- Underlying profits up 1%, absorbing carry cost of Tier-2 bond issue
- Further progress on EPS (+7.3%) and RoTE (now at 13.5%)
- CET1 at 15.9% - total capital at 18.8%

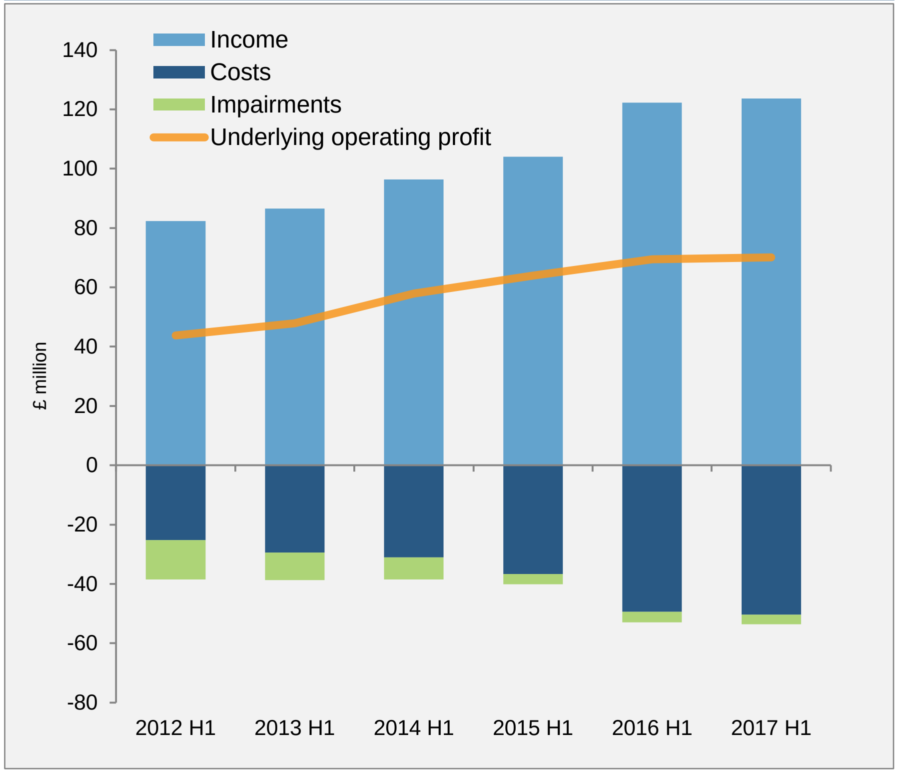
2017 guidance either affirmed or enhanced

Section 1

Financial Results - Six months ended 31 March 2017

Underlying profit growth during a time of strategic repositioning and market disruption

Operating profits



- Total income increased by 1.1%
- Net interest margin flat at 2.11%, but includes 10bp impact from Tier-2 bond issue and lower base rates
- Average loan book up 3.6% to £10.8 billion

- Cost:income ratio 40.7% post asset finance acquisitions
- FY consolidated PBAF and Premier costs will take 2017 absolute costs to £100-£105m range, leveraging cost base

- Underlying operating profit CAGR of 9.9% (2012-2017)

- Further improvement in bad debts, down to 6bp

Segmental profit trends

Paragon Bank is growing in maturity and importance to the Group

Paragon Bank

- Paragon Bank delivering strong profit growth:
  - Strong organic flows
  - Purchases from Group
- Operating profits of £14.2 million (2016 H1: loss of £0.8 million)

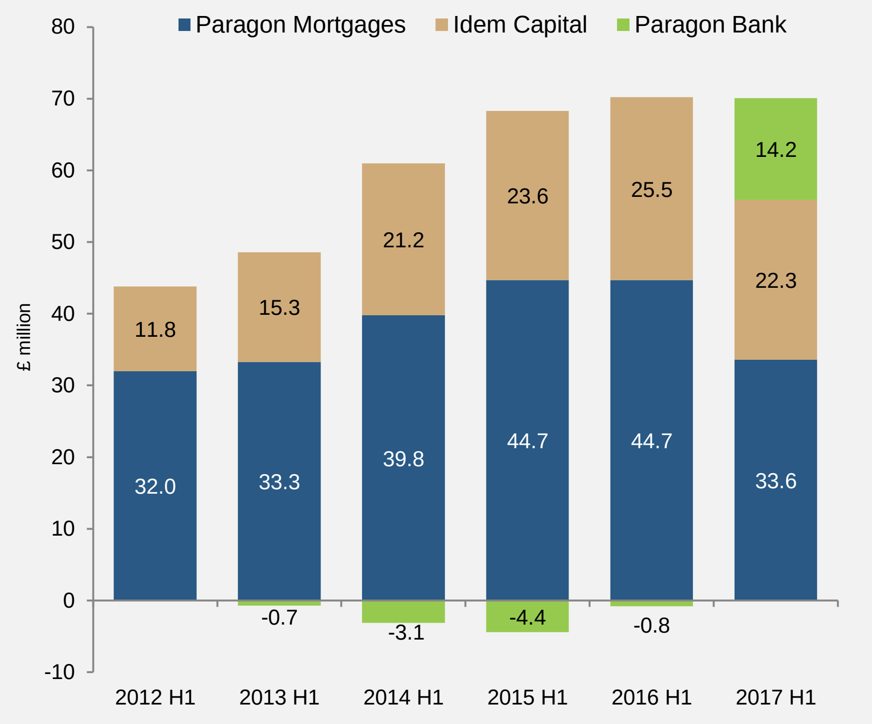
Paragon Mortgages

- Operating profits of £33.6 million reflect transfer of securitisation pools and greater focus on origination in Paragon Bank (2016 H1: £44.7 million)

Idem Capital

- Operating profits of £22.3 million (2016 H1: £25.5 million)

Operating profits of £70.1 million



Portfolio yields

Higher yield new lending replacing low yield legacy BTL

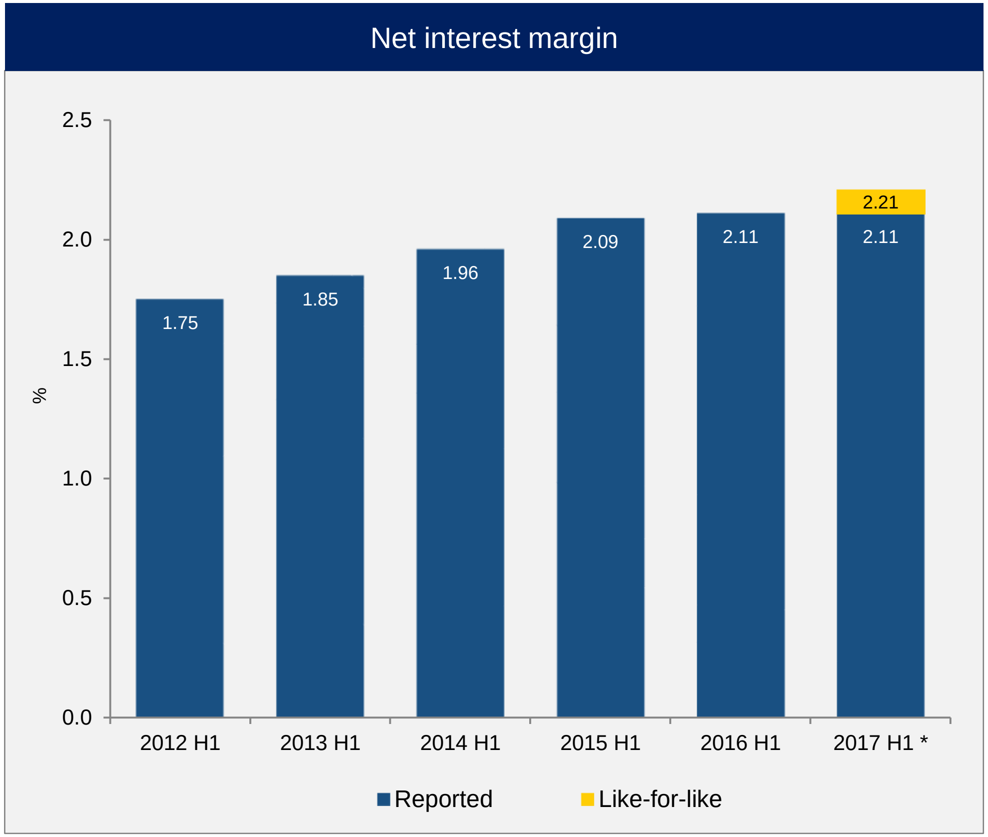
- Gross yields on BTL portfolios reflect base rate change and trends in new business pricing
- Idem Capital portfolio reflects run-off of higher yield historic portfolios and competitive pricing for new deals
- Car finance yields broadly flat in consumer section, second mortgage yields lower following base rate changes
- Asset finance yields lower given entry to mid-market segment

	Average balance		Gross yield *	
	2016 H1 £m	**2017 H1 £m**	2016 H1 %	**2017 H1 %**
Buy-to-let (Paragon Mortgages / Paragon Bank)				
• New	2,618.3	**3,121.0**	4.77	**4.65**
• Legacy	6,941.3	**6,489.4**	2.27	**2.02**
Acquired portfolios (Idem Capital / Paragon Bank)				
• Secured	234.9	**328.3**	21.77	**17.54**
• Unsecured	214.1	**242.5**	18.15	**14.64**
Consumer (Paragon Mortgages / Paragon Bank)				
• New	85.2	**172.6**	5.21	**4.45**
• Legacy	194.6	**159.4**	9.98	**9.90**
Development finance (Paragon Bank)	0.6	**19.9**	8.61	**9.25**
Asset finance (Paragon Bank)	234.5	**292.0**	11.37	**10.73**

* Total operating income from lending activities divided by average monthly balances

Underlying NIM progress maintained

- Underlying NIM growth of 10-15bp expected for 2017
- Reported increase in NIM dampened by Tier-2 issue and lower base rates
- Asset finance yields being reduced with mid-market strategy, volumes higher
- TFS benefits immaterial in current reporting period – drawings scheduled through to February 2018

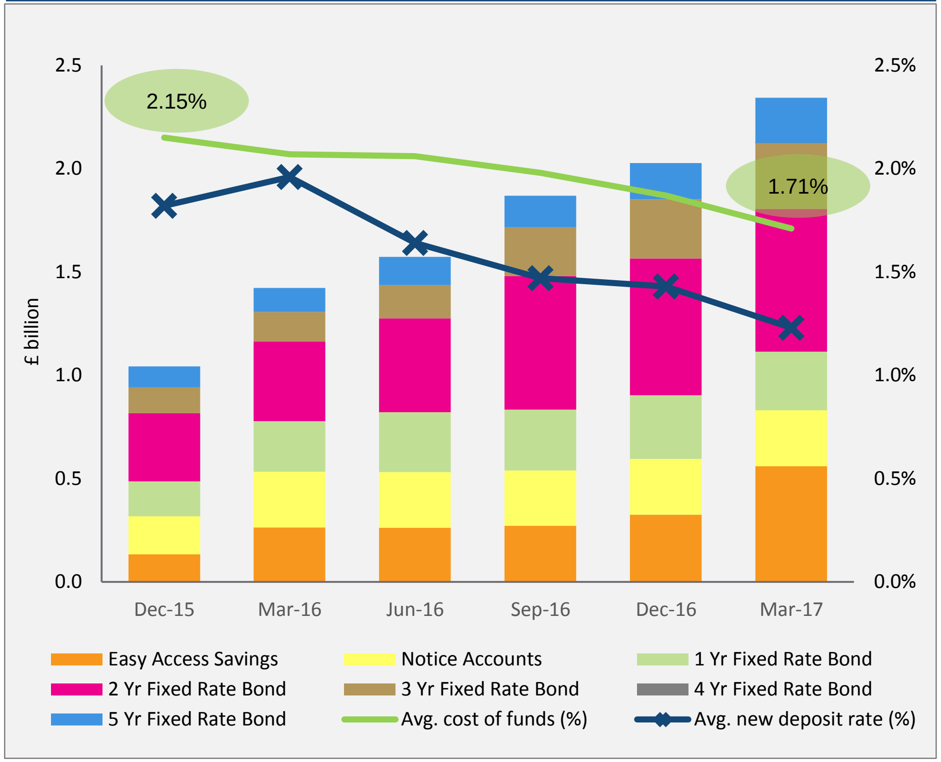


* Absorbed Tier-2 bond issued in 2016

New deposits available in scale at increasingly attractive prices

- Paragon Bank growth supported by deposit-taking activities
- Savings balances now exceed £2.5 billion
- Marginal savings costs lower year-on-year, but term deposit market remains competitive:
    - Average variable rate 1.2%
    - Average term deposit rate 1.9%
- ISA products successfully introduced

Deposit balance and cost of funds

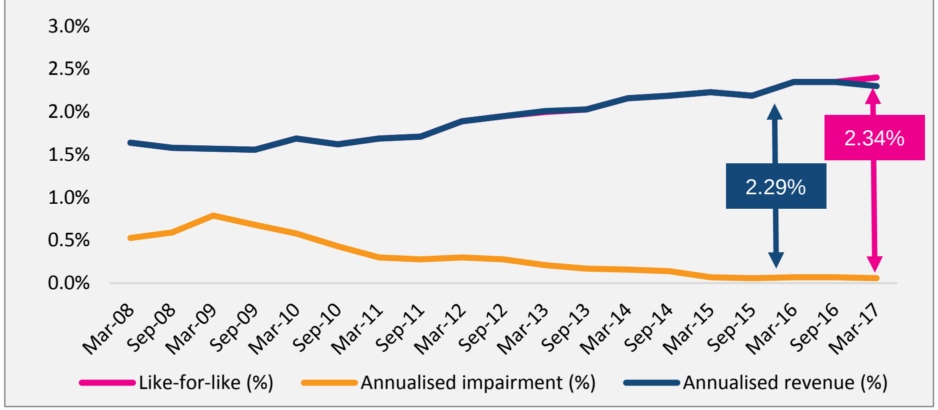


Risk adjusted margin and lead credit indicators

Group credit profile remains exemplary

- Risk adjusted margin on a like-for-like basis (excluding impact of Tier-2 bond) stood at 2.34%
- Arrears performance on BTL portfolio remains exemplary at 9bp
- Updated lead indicator behavioural scores reveal no emerging signs of stress across portfolios

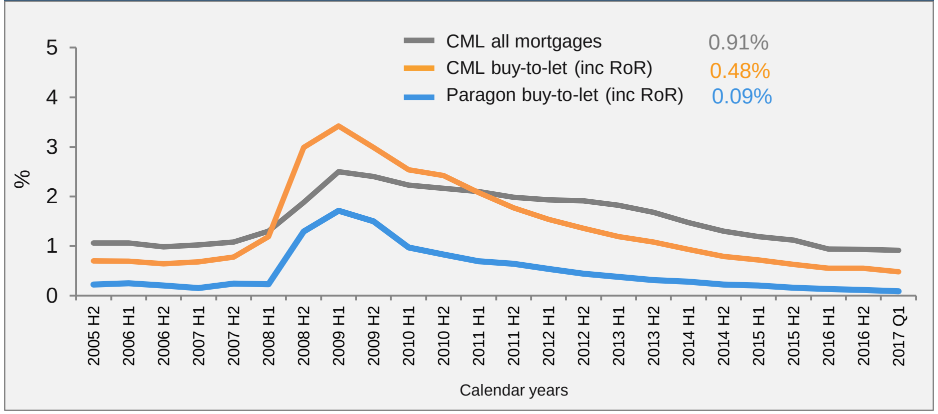
Risk adjusted margin



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

Indexed credit behavioural scores by portfolio	March 2016	March 2017
Legacy buy-to-let assets	100.0	100.6
New buy-to-let assets	100.0	102.0
Idem Capital assets	100.0	106.4
New second charge mortgage assets	100.0	102.1
Legacy second charge mortgage assets	100.0	102.8
Car finance assets	100.0	101.1

BTL 3 months+ arrears



Group cash flow

Group remains strongly cash generative

Investments (£m)	
Operating investments	-156.5
Share buy-backs	-26.6
Net investments	**-183.1**

Group (£m)	
Free cash b/f	366.5
Operating cash flow	99.4
Investments and debt	-183.1
Dividends	-25.4
Free cash c/f	**257.4**

Operating cash flow (£m)	
From investments	180.3
Debt service	-16.5
Operating expenses	-50.0
Tax	-14.4
Total	**99.4**

Investments in operating businesses: -£156.5 million
Cash flow from investments: £180.3 million

	paragon mortgages	idem capital	paragon bank
Cash to Group	£110.4 million	£48.8 million	£21.1 million
New investments	+£17.0 million	-£95.4 million	-£78.1 million

Capital leverage

Group capital levels remain strong with further upside potential

Group consolidated capital	
Core Tier-1 capital *	£866.0m
Tier-2 capital	£155.9m
Risk exposure (RWA and operational risk)	£5,441.6m
CET1 ratio *	15.9%
Total capital ratio	18.8%

Group consolidated leverage ratio	
Tier-1 equity *	£866.0m
Leverage exposure **	£13,265.3m
UK leverage ratio *	6.5%

Group solo net debt	
Corporate debt	£558.6m
Free cash	£257.4m
Net debt position	£301.2m

* Unaudited figures adjusted for proposed dividend and irrevocable buy-backs

** Excludes qualifying central bank claims accordance with the rule modification applied to the UK Leverage Ratio Framework

Capital ratios

- CET1 unchanged from September 2016 year-end at 15.9%
- Total capital ratio 18.8% including benefits from Tier-2 issue
- UK leverage ratio strong at 6.5%
- Medium term CET1 target 13%

Risk weightings

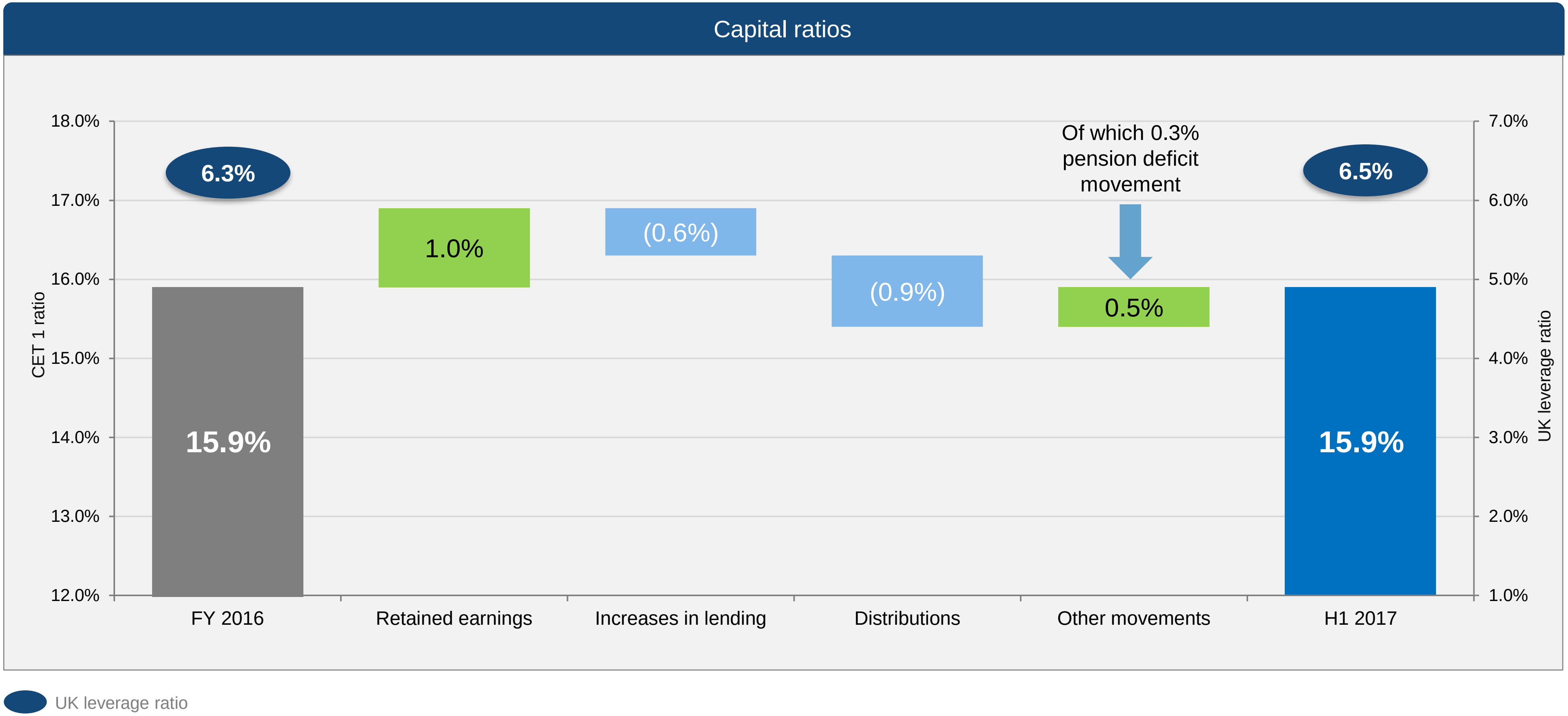
- Group remains on Standardised Approach
- IRB project progressing
- PRA interim proposals supportive for new banks seeking IRB status

Tier-2

- Tier-2 issue dampens near-term earnings, but supports movement of CET1 to 13.0% target level

Strong capital ratios

Profitability supporting growth and capital return



Dividends 0.2% and buy-backs 0.7%

Section 2

Strategy and Business Development

Specialist lending strategic focus

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

Strategic levers

- Strong organic growth
- Product diversification
- M&A
- Capital management

Targeting specialist markets

- Driving up RoTE
- Sustainable growth
- Robust model, low risk appetite

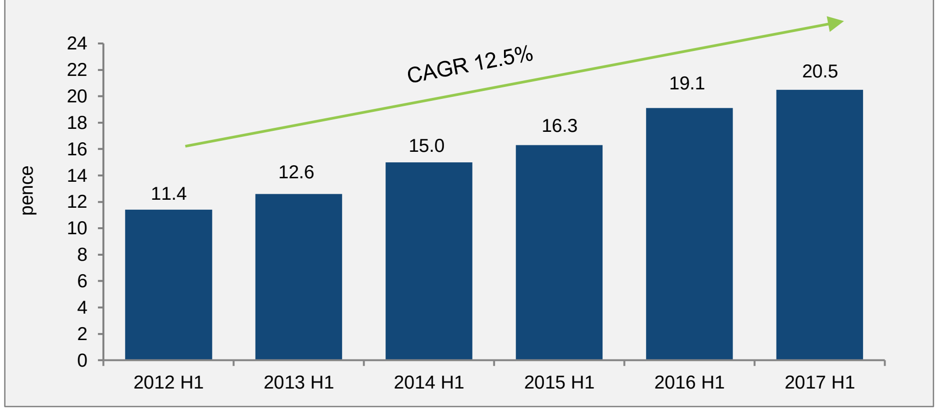
Transition

- Improving debt / equity optimisation
  - Buy-back programme
  - Tier-2 bond
- Deposit flows primary source of funding
  - Securitise opportunistically
- Loan diversification
  - Increasing asset diversification
    - Organic and M&A
  - Six new product lines since 2014
  - Benefits to income emerge over time

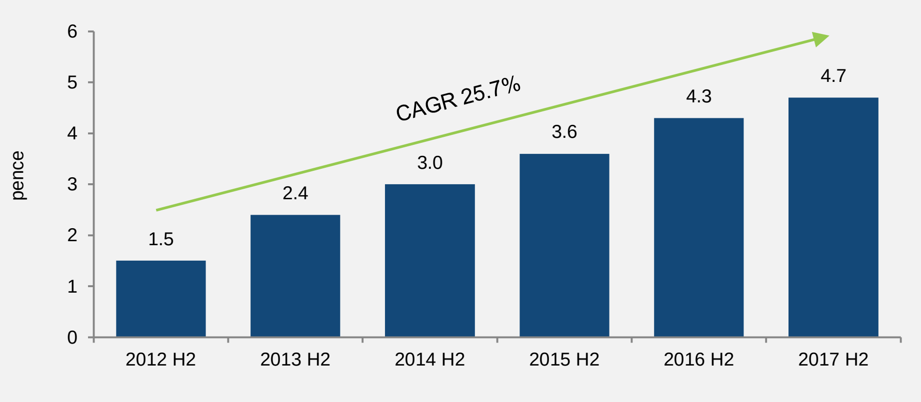
Strong financial progress during a period of transition

- Transition has required investment
- Improvements reflect profit growth and capital management progress in 2017
  - EPS up 7.3%
  - Dividend up 9.3%
  - RoTE improved to 13.5% from 12.7%

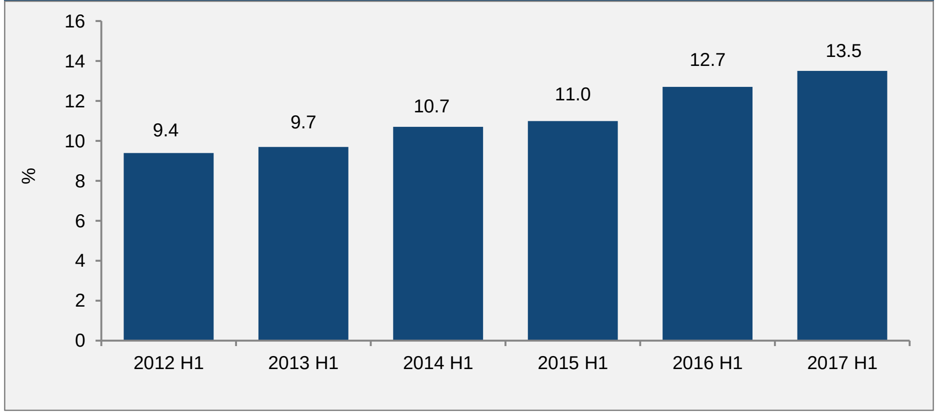
Earnings per share



Interim dividend per share

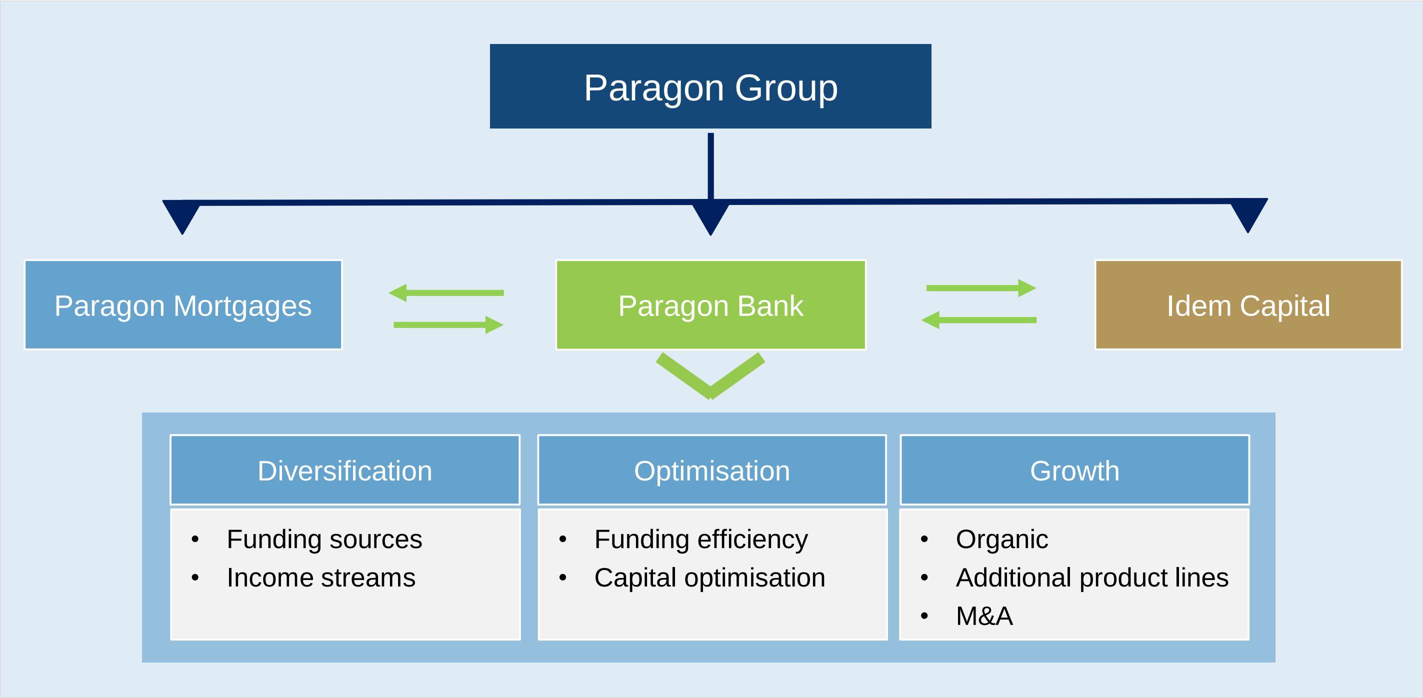


Return on tangible equity



Paragon Bank at heart of Group's strategic development

Transition to a broader based banking group optimising funding and capital efficiency



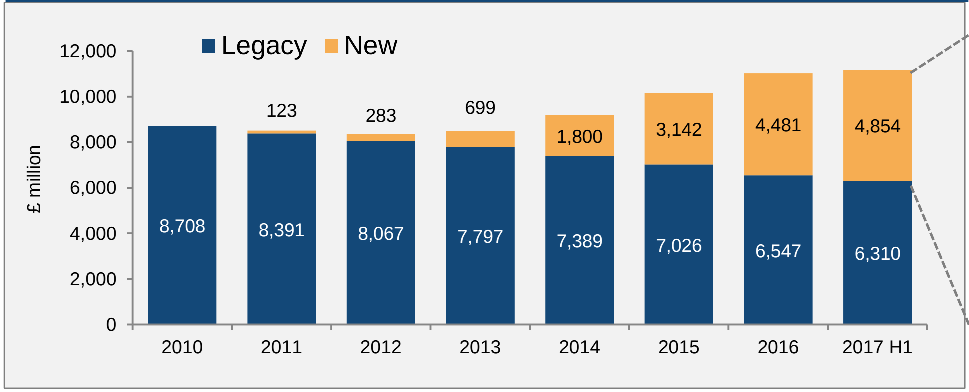
- Vast majority of new originations funded in the Bank
- Idem Capital / Paragon Bank JV deals
- Asset sales from Group to Bank
- £269 million BTL mortgages acquired by Paragon Bank from warehouse
- Post-crisis securitisations being called and underlying mortgages acquired by the Bank
- Supports access to FLS / ILTR / TFS

Funding strategy

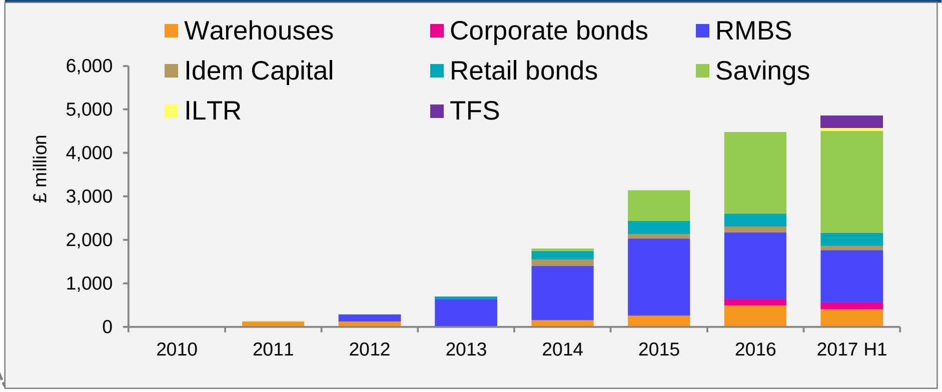
Capacity and breadth of funding increasing

- Improving deposit franchise - now covers over 50% post-2010 funding
- First drawings on TFS; significant further drawings expected

Funding mix



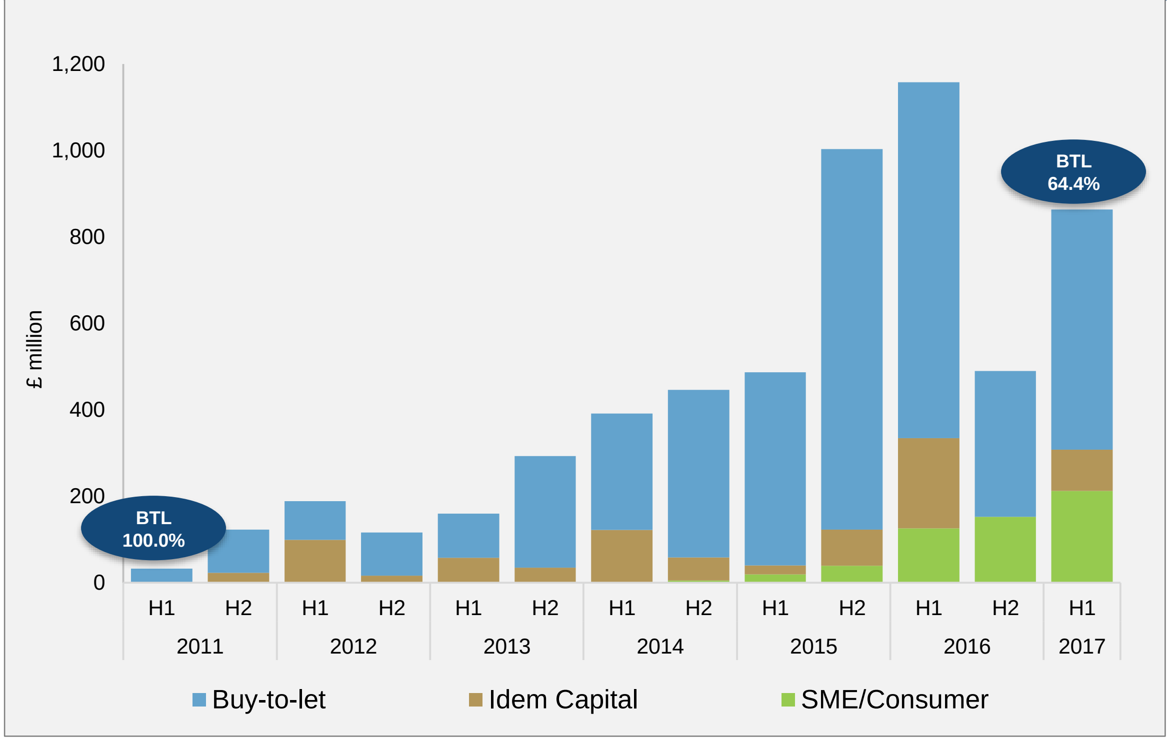
Diversification of new funding mix



New income streams delivering strong growth

- Good progress on lending in newer asset classes
- Income diversification increasing faster than balance sheet given wider margins on new assets

Total Group completions and asset purchases

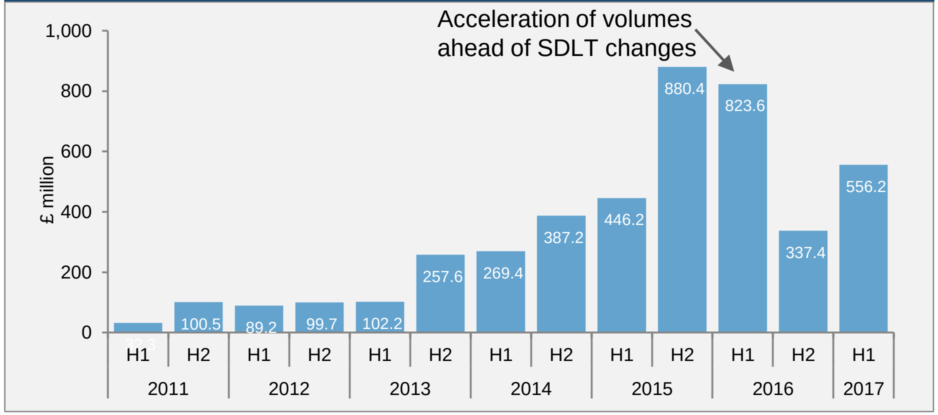


Buy-to-let new lending

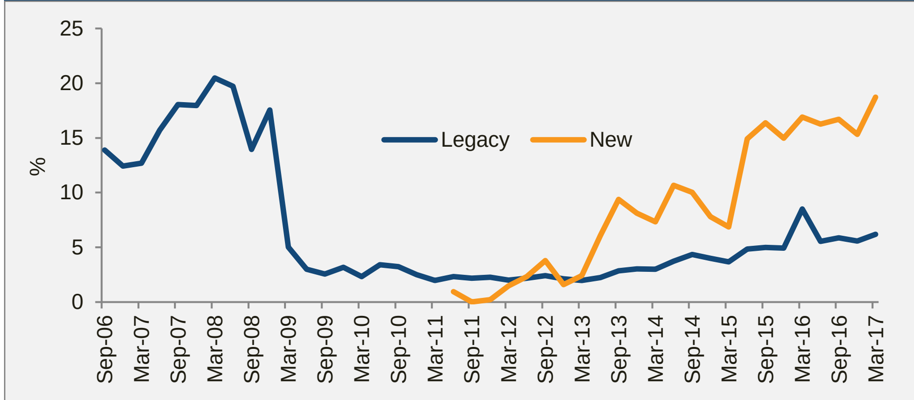
Volumes building after disruptive period

- SDLT changes created significant market disruption
- H1 lending significantly down year-on-year, but 65% up on H2:16
- Pipeline more than doubled since September
- Upgrading 2017 guidance
- Redemption activity reflects different portfolio dynamics; trends in line with expectation

Group BTL completions



BTL redemptions

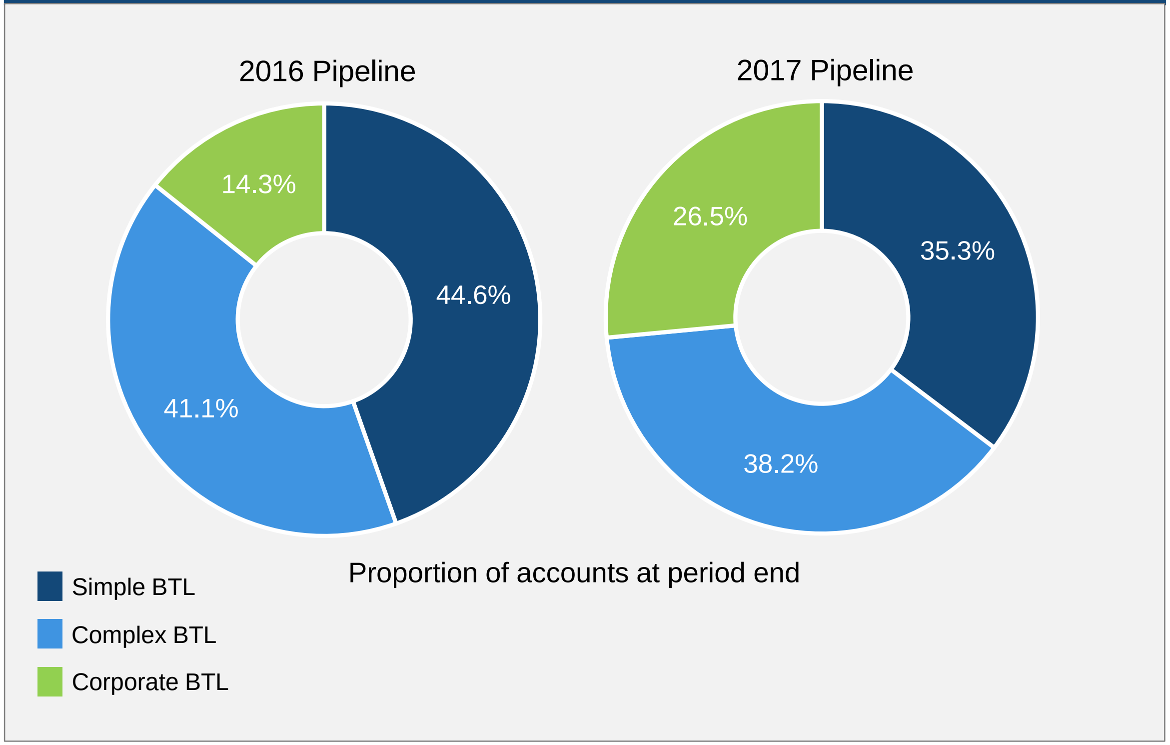


Buy-to-let outlook

Increasing opportunities to grow market share

- PRS demand expected to remain strong
- BTL market lending likely to be weaker …
  - …. but market share gains expected
- Regulatory changes present market opportunities
  - Already seen skewing towards specialists following January 2017 changes
  - Complex/corporate BTL now 64.7% flows (2016 H1: 55.4%)
  - PRA second phase underwriting rules commence October 2017 – expected to generate increased flow of professional landlords

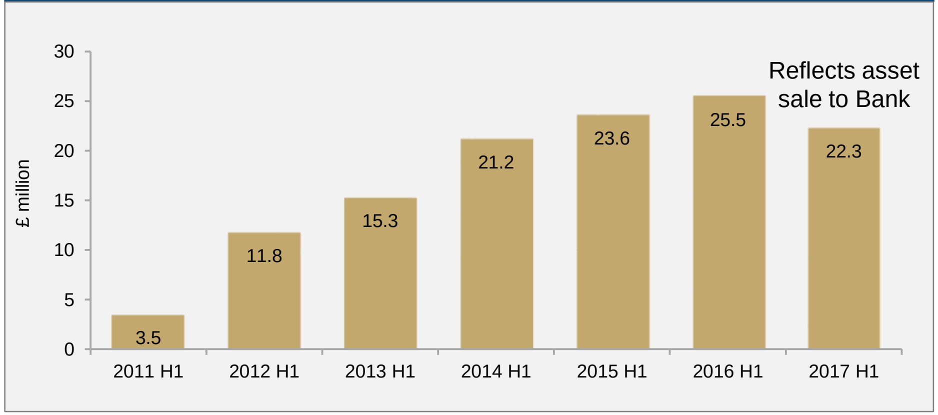
Specialist lending focus



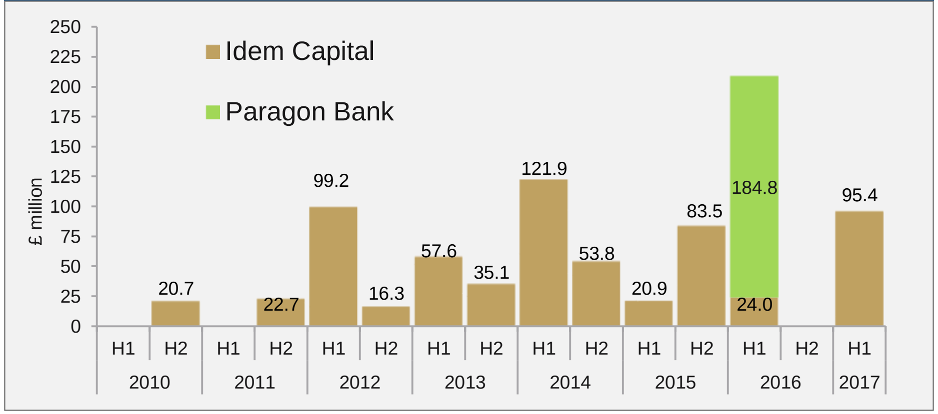
Good H1 with healthy pipeline

- All purchases BAU unsecured loans during the period
  - All Idem Capital only deals
  - Collaboration with Paragon Bank remains part of portfolio purchase strategy
- Market remains competitive
- Portfolio performance remains exemplary
  - Cumulative cash flow now 109.2% of underwriting estimate
- Strong pipeline of opportunities
- Further growth to be driven by:
  - Strong recent consumer credit lending (+9%) (Source: FLA)
  - IFRS9

Idem Capital – operating profit



Portfolio purchase investment



Bank new lending

Paragon Bank continues to extend its reach into specialist markets

Developed

Buy-to-let

- Accessing Group distribution, optimising funding
- £454.7 million new lending (2016 H1: £344.1 million)
- £269 million of BTL mortgages acquired from warehouse
- No arrears

Car finance

- £50.7 million of new lending (2016 H1: £41.2 million)
- Loan book £123.9 million (2016 H1: £73.4 million)
- Strong credit standards, no PCP

Second charge mortgages

- £31.1 million of new lending (2016 H1: £26.0 million)
- MCOB regulation in 2016 caused some disruption to market flows
- Distribution increasingly extending to mainstream brokers post-MCOB
- Average LTV 64.0%
- No arrears

Development finance

- Loan book £31.2m from standing start in 2016
- Momentum building, £48.7m pipeline
- Focus on new-build small developments – underserved market
- Prudent criteria – only senior debt available – only financing experienced developers
- Demand to remain strong for foreseeable future – Government policy supportive

New initiatives

Specialist residential

- Launched pilot in Q1 2017
- Experienced team hired
- Serving self-employed, complex income cases and those borrowing into retirement
- Increasing opportunities following structural changes in mortgage market

Structured lending

- Opportunities to lend to non-bank financial institutions
- Fully secured on known asset classes
- Low risk appetite
- Unit established post-half-year end, 2018 opportunity

Asset finance lending

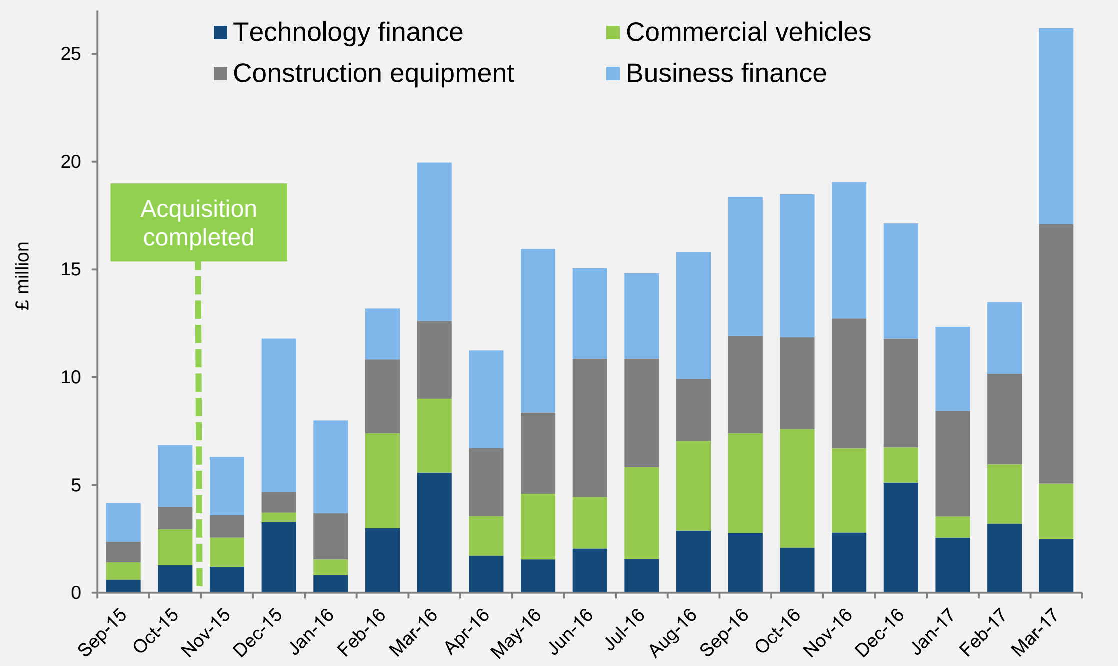
Excellent lending growth whilst enhancing customer reach

- New business volumes up 65% year-on-year
- Strong credit standards

Transition from narrow focused to broader based specialist

- Increasing addressable market through a stronger broker proposition
- New management team in place and improved organisational design
- Commenced roll-out of new origination systems
- Premier Asset Finance contributing strongly and exceeding expectations

Paragon Bank - asset finance volume trends

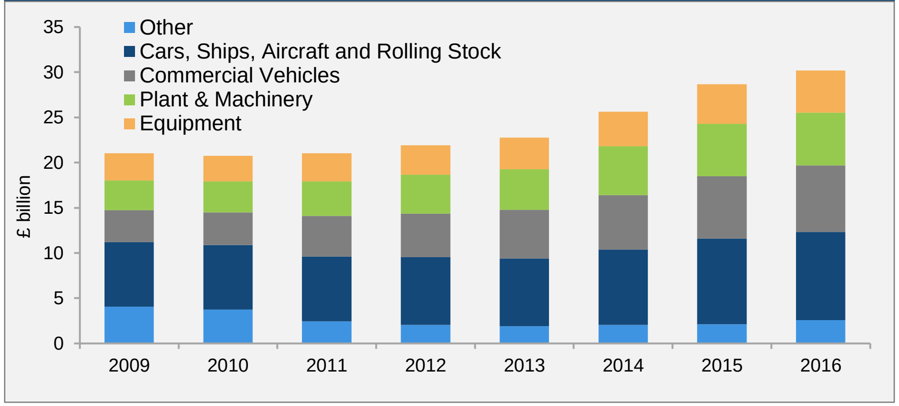


Asset finance outlook

Foundations in place to deliver further lending growth

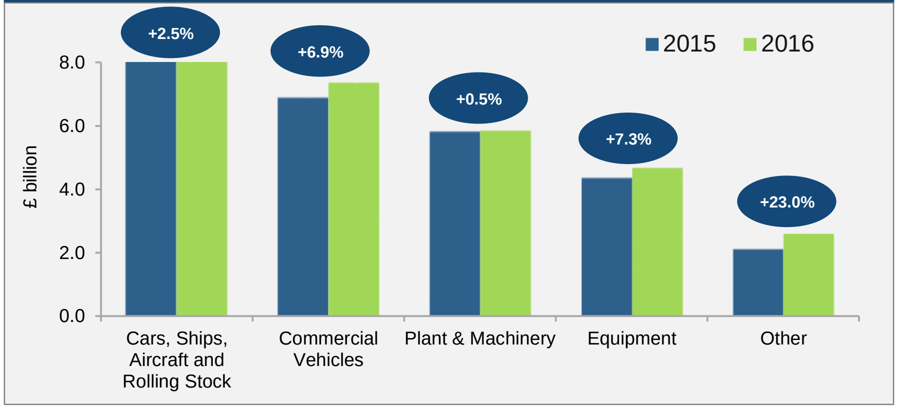
- Asset finance market continued to show strong growth over last 12 months
- Market expects continued growth
- Highly fragmented lending market
- Downward pressure on yields driven by TFS
- Good risk adjusted margins

UK asset finance originations



Source: Finance & Leasing Association

Asset finance new business up 5.4% (2016 v 2015)



Source: Finance & Leasing Association

Conclusion

Improving delivery alongside major business model transition

Loan growth with increasing specialisation	Enhanced capital and funding optimisation	Increasing income stream diversification

- Low risk appetite, exemplary credit standards
- Deep customer and market understanding supporting drive in specialist markets
- Robust and sustainable model
- Driving up RoTE

Guidance

Current year expectations

- BTL 2017 lending c£1.25 billion
- Asset finance > £200 million
- Other bank lending >£200 million
- Underlying NIM growth 10-15bp
- 2017 costs (£100-105 million)

Medium term target

- Cost:income ratio low 30%s
- RoTE 15%
- CET1 13%

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