

THE PARAGON GROUP OF COMPANIES PLC

Interim Management Statement

The Paragon Group of Companies PLC (“Paragon” or the “Group”) today publishes its Interim Management Statement based on the performance of the business from 1 October 2011 to date, including a commentary on the unaudited financial information for the period from 1 October to 31 December 2011.

The financial performance of the Group remained strong during the period, in line with management’s expectations, generating operating profits (before fair value items) of £20.3 million, compared with £18.1 million for the corresponding period in the previous year, the increase being attributable primarily to income generated from the Group’s new business developments. Pre-tax profits, inclusive of a credit of £0.5 million for fair value hedging items, were £20.8 million for the period.

Trading

The Group’s loan portfolio continues to perform in line with our expectations. Redemptions across the loan books remain low and the credit performance across the portfolio, including legacy buy-to-let and consumer assets, newly originated buy-to-let assets and the acquired books, continues to be strong. At 31 December 2011 arrears over three months on the buy-to-let portfolio, including acquired loans and receivership cases, were 64bp, comparing favourably with 83bp of arrears at 31 December 2010 and at a similar level, despite the seasonal payment disruptions of the Christmas period, to the 63bp of arrears at 30 September 2011.

After investing £98.9 million on portfolio acquisitions over the period and £37.5 million in the recent securitisation by Paragon Mortgages (No. 16) PLC, free cash balances stood at £83.6 million at 31 December 2011 compared with £195.0 million at 30 September 2011. Cash generation from the Group’s SPVs and, increasingly, from the acquired portfolios, remained strong over the period.

New buy-to-let lending

During the quarter, £37.4 million of new buy-to-let loans were advanced and a further £1.2 million was advanced by way of further advances to existing borrowers. At 31 December 2011 the pipeline of new business amounted to £95.1 million. The credit quality of the new lending business written in the period has remained excellent.

In October 2011 the Group completed, through its subsidiary Paragon Mortgages (No. 16) PLC, the first securitisation transaction consisting exclusively of buy-to-let assets

since the reopening of the wholesale funding markets. The £163.8 million transaction was Paragon's first securitisation since July 2007. Following high levels of investor demand, the transaction was upsized from a launch forecast of approximately £150 million confirming bond investors' appreciation of the strong credit profile of the Group's buy-to-let assets and Paragon's pedigree as an issuer of high quality bonds. Paragon Mortgages (No. 16) PLC placed £131.7 million Class A Senior notes, rated AAA by Fitch and Aaa by Moody's, with investors. The Group retained £32.1 million Class Z junior notes and advanced a cash fund of £5.4 million. The transaction represented a significant step in the Group's ongoing funding programme.

Portfolio acquisitions

In October 2011, the Group's investment division, Idem Capital completed the purchase of a portfolio of unsecured consumer loans from The Royal Bank of Scotland PLC for £43.2 million. In addition, under the terms of a forward flow agreement entered into with The Royal Bank of Scotland PLC, a further acquisition of unsecured consumer loans was completed in January 2012 for a modest amount. The opportunity to make further sundry purchases from this source is anticipated in the coming months and any such purchases will be announced as they occur.

A further significant portfolio purchase was completed just before the end of the quarter. On 19 December, Idem Capital acquired a portfolio of closed credit card receivables from MBNA Europe Bank Limited, for £55.7 million. We anticipate the management of these accounts will be transferred to our systems during the second quarter of the year.

By 31 December 2011, total investment in portfolios by the Group's investment division, Idem Capital, since 2009 amounted to £145.2 million. Portfolio acquisitions have become an increasingly important part of the Group's activities and Paragon's track record of loan servicing, risk management and portfolio investment positions it well to exploit similar opportunities as they arise in future.

Outlook

During the period, the Group has made excellent progress, continuing the successful management of the existing and acquired books whilst developing the new lending business, completing its first securitisation since 2007 and securing attractive portfolio acquisition investment opportunities. The Group will continue to pursue this strategy.

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