Paragon Banking Group PLC

Resilient in an uncertain environment

Financial results

6 months ended 31 March 2020

paragon

Our priorities facing Covid-19

- Support our customers and suppliers
- Protect our people
- Safeguard our capital base
- Preserve the long-term value of the business

Existing strategy already based on long term sustainability, prudence and operational resilience

Specialist bank

- Deliberate strategy post GFC to build and grow a leading specialist bank
- Diversified business divisions
- Broadly based, reliable, scalable and cost-efficient range of funding options

Across-the-cycle experience

- Experience of previous recessions
- Data-centric approach – rich content
- Experienced staff and management working with common values

Cautious risk appetite

- Credit, capital, liquidity, operational risk all tightly monitored
- Exemplary long term credit record
- Balance sheet – 98% secured, builds on expert asset valuation and recovery knowledge
- Divisional operating models “bespoke” to support risk appetite in specialist markets

Prudentially strong

- CET1 14.4%, leverage ratio 7.0%, LCR 219%

Paragon's response to Covid-19

Swift reaction delivering high operational and business resilience

People and operations

- Swift response to developing environment
- Reflects highly agile capabilities
- Demonstrated high levels of operational resilience
- 90% of staff mobilised and supported to work from home
- Internal resources reallocated
- Stable technology throughout
- Significant technology deliveries

Customer support

- Payment holidays granted across the business
- All products and services fully maintained throughout
- CBILS and BBLS accredited to support customer base
- TFSME accreditation

H1 2020 results overview

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Underlying trading in line with expectation pre-Covid – total Covid P&L impacts £27.7 million

Financial highlights

- Underlying operating profits down 28.3% to £57.2 million ***including Covid-19 overlays of £27.7 million***
- Underlying EPS down 29.6% to 17.6p
- Underlying RoTE 9.7%
- Cost:income ratio 41.8% (H1 2019 42.8%)
- Cost of risk increased to 49bp from 8bp in H1 2019 following cautious approach to overlay in uncertain environment

Business developments

- Underlying net loan book growth +6%
- NIM up 5bp to 229bp
- New lending continuing to reflect diversification strategy
  - Specialist buy-to-let advances +1.2% at £694.6 million
  - Other mortgages down 30.3% at £98.2 million due to increased focus on specialist business, continuing to de-emphasise amateur landlords
  - Commercial Lending advances up 5.7% to £481.3 million

Capital and funding

- Savings deposits up 8.1% from September 2019 year end
- Fully retained securitisation completed, enhancing contingent funding
- TFSME base allowance £1.2 billion
- No interim dividend declared given Covid-19 uncertainties
- CET1 improved to 14.4% (14.0% fully loaded)
- Total capital ratio strengthened to 16.7% (16.2% fully loaded)
- Surplus over regulatory minimum exceeds £0.2 billion
- IRB module 1 application made to the PRA

Financial results

6 months ended 31 March 2020

Richard J Woodman
Chief Financial Officer

Covid-19 approach

Post Covid-19 outlook reflected though income recognition and impairment adjustments

Purchased portfolio income recognition -£3.7 million

- Income recognition impacted by discounting lower cash flow, with partial recovery as economy recovers
- Instalment payments reflect longer term defaults, lump sum receipts reflect timing differences
- Calculated impact £3.7 million at 31 March 2020, supported by April and May performance

Impairments -£24.0 million

- Main macro-variables impacting a largely secured book are GDP, unemployment and property prices
- Updated series of scenarios created, most severe is harsher in nature than the PRA illustrative scenario. Extra £33 million if 100% weighted
- Additional "overlays" added for non-modelled portfolios or where modelled approach doesn't fully reflect the short term evidence from Covid-19

Stimulus and support packages

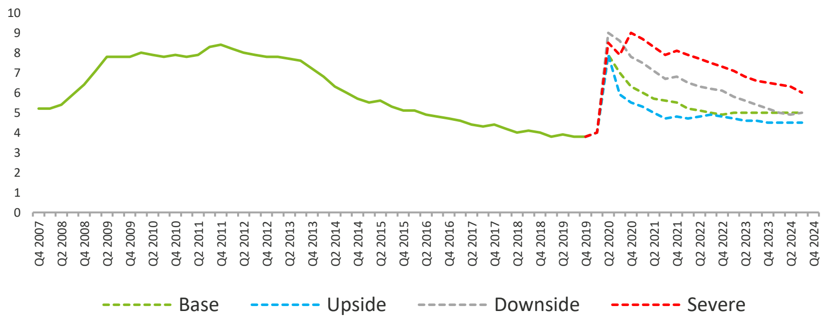
- Weighted approach to scenarios designed to reflect potential positive impacts from governmental and regulatory initiatives
- Detailed customer contact underway (currently supporting assumptions) but impacts of end of furlough, self-employed support, CBILS and BBLS not yet evidenced in customer status and behaviour
- Lack of reliable behavioural data from credit score firms adds increasing importance to direct customer contact

Economic outlook

Multiple economic scenarios

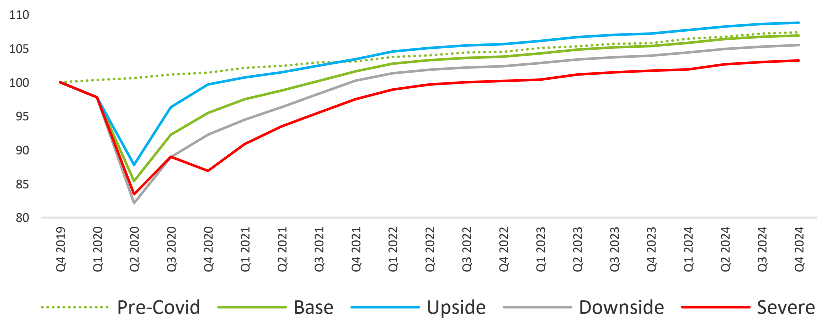
- Series of economic scenarios modelled ranging from swift recovery from end of lockdown through to deeper recession, lower property and asset prices, higher unemployment and second wave of lockdowns that slow recovery further
    - Best case 10% weighted
    - Central case 40% weighted
    - Harsher case 35% weighted
    - Severe case 15% weighted
- Severe case calibrated to be worse than PRA illustrative scenario
- 100% weighting of severe case would add £33 million to modelled portfolio

Unemployment (%)



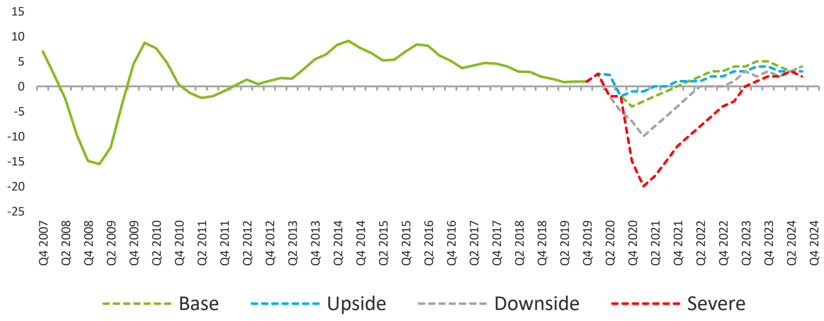
Source: ONS, Paragon Banking Group PLC

Scenario GDP Profiles (index)



Source: Paragon Banking Group PLC

House price change (%)



Source: ONS, Paragon Banking Group PLC

Income statement

Pre and post-Covid adjustments

£ million	H1 2020 Reported	H1 2020 Covid Adj	H1 2020 Pre-Covid	H1 2019	Change
Net interest income	141.4	(3.7)	145.1	138.1	+2.4%
Other income	8.3		8.3	9.9	(16.2%)
Total operating income	149.7	(3.7)	153.4	148.0	+1.1%
Operating expenses	(62.5)		(62.5)	(63.3)	(1.3%)
Impairments	(30.0)	(24.0)	(6.0)	(4.9)	+512.2%
Underlying profit before tax	**57.2**	**(27.7)**	**84.9**	**79.8**	**(28.3%)**
Fair value net gains / (losses)	(0.1)		(0.1)	(7.8)	
Profit before taxation	**57.1**	**(27.7)**	**84.8**	**72.0**	

Segmental results

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Core business line contributions more than offset by expected Idem Capital earnings fade

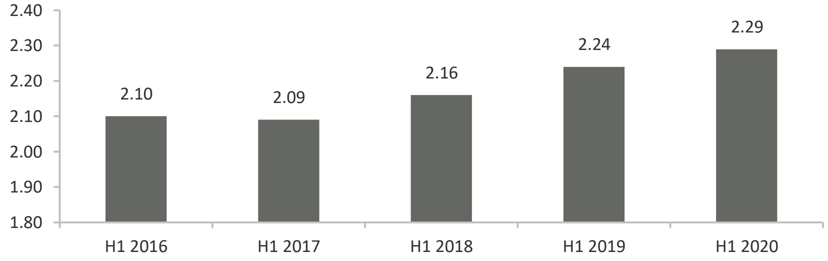
Underlying £ million	Mortgages	Commercial Lending	Idem Capital	Central	Total
Total operating income (H1 2020)	99.1	43.4	13.5	(6.3)	149.7
Change (v H1 2019)	+6.1	+7.3	(13.8)	+2.1	+1.7
Of which Covid-19	*(0.1)*	*-*	*(3.6)*	*-*	*(3.7)*
Operating expenses	(8.4)	(12.8)	(3.2)	(38.1)	(62.5)
Change	(0.7)	+0.1	+0.8	+0.6	+0.8
Provisions for losses	(13.8)	(15.5)	(0.7)	-	(30.0)
Change	(13.1)	(11.8)	(0.2)	-	(25.1)
Of which Covid-19	*(11.0)*	*(11.6)*	*(1.4)*		*(24.0)*
Contribution	**76.9**	**15.1**	**9.6**	**(44.4)**	57.2
Change	(7.7)	(4.4)	(13.2)	+2.7	(22.6)
Of which Covid-19	*(11.1)*	*(11.6)*	*(5.0)*	*-*	*(27.7)*

Segmental influences on NIM

Non-Idem Capital NIM progression remains strong

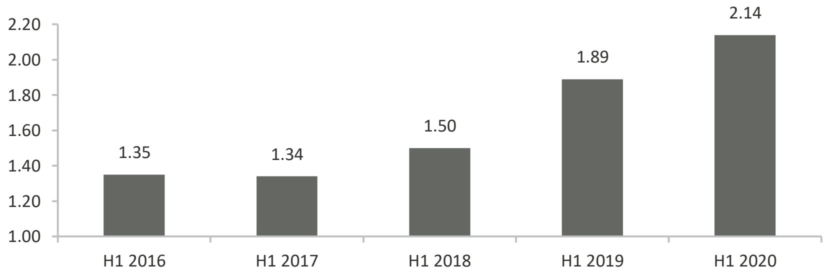
- Rate of run-off of Idem portfolio disproportionately impacts Group NIM in the near term
- Potential demand disruption from Covid-19 may skew the weightings of the portfolios (rate and volume variances summarised in Appendix)
- Focus on non-Idem NIM progression to demonstrate strategic delivery
- Base rate reductions passed on in full to administered rate loans
- Significant benefit to cost of funds from savings changes expected in H2 2020

NIM progression – Group (%)



Source: Paragon Banking Group PLC

NIM progression – Group excluding Idem Capital (%)



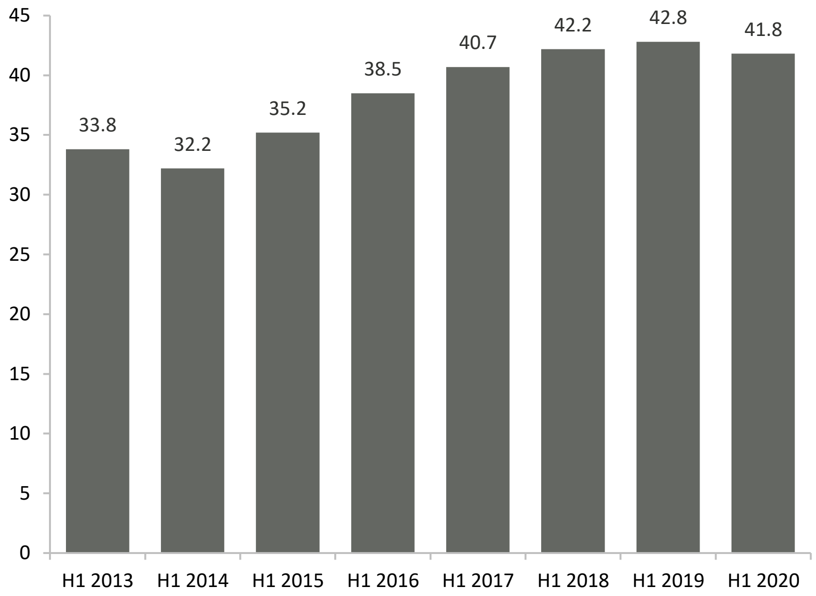
Source: Paragon Banking Group PLC

Operating expenses

Improved cost:income ratio

- Costs marginally lower
  - Lower share-based remuneration accruals
  - Continued investment in technology / infrastructure
  - Project costs include ongoing support for IRB application
- Income marginally higher
  - Pre Covid-19 Idem Capital adjustment CIR would have been 40.7%

Underlying cost:income ratio (%)



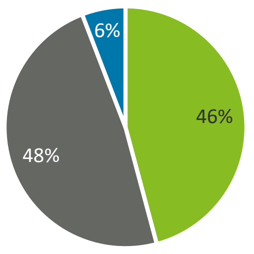
Source: Paragon Banking Group PLC

Impairments

Updated economic assumptions and other overlays drive higher impairments

- Updated economics and overlays add £24.0 million (56%) to balance sheet provisions
- All portfolios substantially secured in nature
- Prudent assessment given known circumstances
- Detailed customer contact ongoing
- Covid uplifts:
  - 41.8% Mortgages
  - 92.1% Commercial Lending
  - 36.8% Idem Capital (PLUS EIR impairment)

Impairment overlay



Source: Paragon Banking Group PLC

IFRS9 provisions (£m)

	Mortgages	Commercial Lending	Idem Capital	Total
Stage 1	10,120.5	1,412.1	137.8	11,670.3
Stage 2	447.8	81.8	12.6	542.2
Stage 3	129.9	15.0	29.7	174.6
POCI	15.2	9.6	160.8	185.6
Gross loan book	**10,713.4**	**1,518.5**	**340.9**	**12,572.8**
Stage 1	1.9	16.0	0.2	18.1
Stage 2	6.3	2.3	0.4	9.0
Stage 3	29.1	5.7	4.6	39.4
POCI	0.0	0.2	0.0	0.2
Impairment provisions	**37.3**	**24.2**	**5.2**	**66.7**
Stage 1	0.02%	1.13%	0.15%	0.16%
Stage 2	1.41%	2.81%	3.17%	1.66%
Stage 3	22.40%	38.00%	15.49%	22.57%
POCI	0.00%	2.08%	0.00%	0.11%
Coverage ratio	**0.35%**	**1.59%**	**1.53%**	**0.53%**

Source: Paragon Banking Group PLC

Group capital

Strong ratios maintained – no interim dividend declared

Group consolidated capital	
Core Equity Tier-1 capital *	£983.3m
Tier-2 capital	£150.0m
Total capital resources	**£1,133.3m**
Credit risk	£6,197.3m
Operational risk	£516.6m
Market risk	-
Other	£91.3m
Total risk exposure	**£6,805.2m**
CET1 ratio *	14.4%
Total capital ratio (TCR)	16.7%

Group consolidated leverage ratio	
Tier-1 equity *	£983.3m
Leverage exposure **	£13,987.3m
UK leverage ratio *	7.0%

* IFRS 9 transitional relief, adjusted for dividends and subject to verification

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

Capital ratios

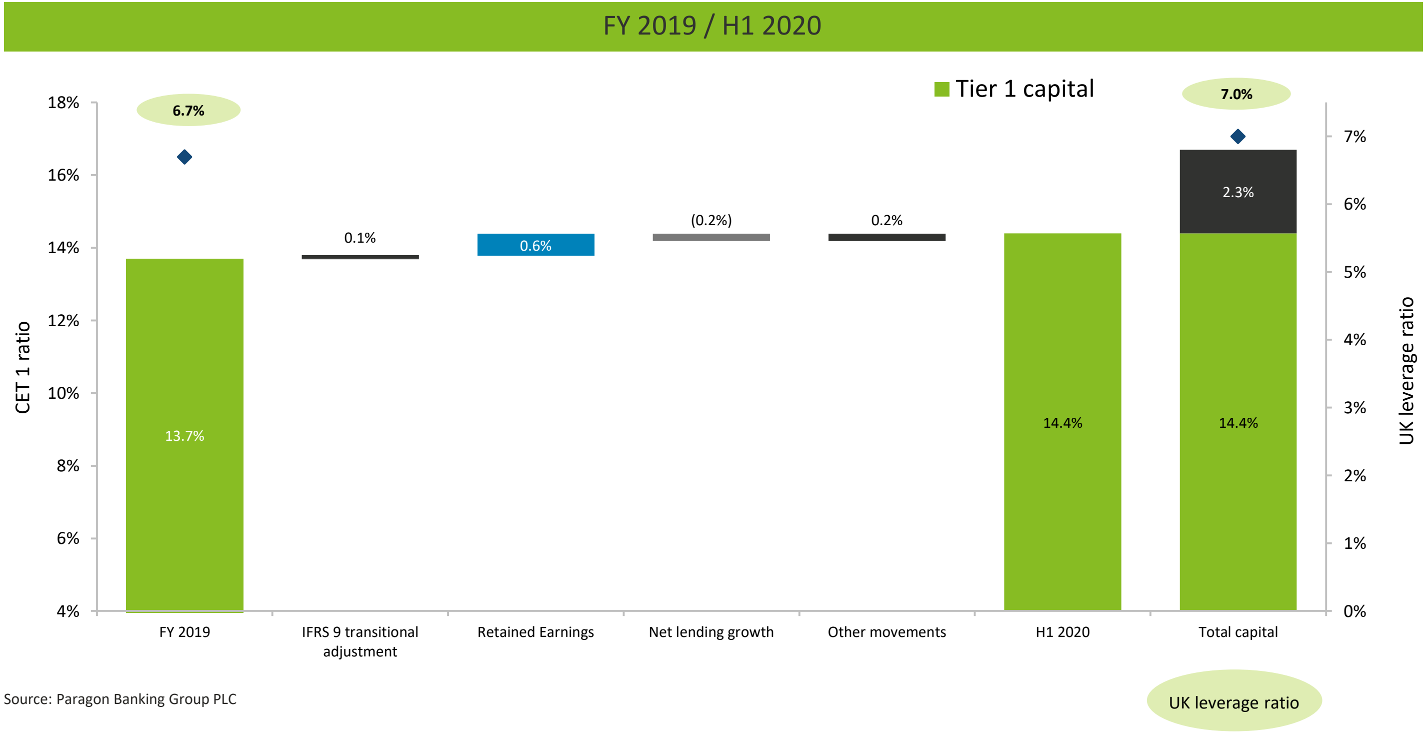
- CET1 and TCR remain strong
- Capital surplus over regulatory requirement exceeds £0.2 billion
- Capital requirements reduced following reduction in CCyB to 0%
- Capital SREP scheduled for later in 2020
- Fully loaded CET1 and TCR are 14.0% and 16.2% respectively

IRB

- Module 1 application now with the PRA

Capital bridge

Removal of interim dividend supports growth in capital ratio



Source: Paragon Banking Group PLC

Strategy overview

Nigel S Terrington
Chief Executive

Dynamic response to Covid-19

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Covid-19 strategy

- Support our customers and suppliers
- Protect our people
- Safeguard our capital base
- Preserve long-term value of the business

Actions

- 90%+ working from home
- Resource reallocation
- Enhanced network resilience
- Cyber security controls strengthened
- Forbearance systems developed
- CBILS/BBLS portal technology built
- Increased customer insight/engagement
- Stepped-up employee communication
- Developed remote valuation process
- Lending criteria adapted

Modified BAU

- Governance normalised
- Phase 2 forbearance engagement commenced
- Full surveying functionality resumed
- Key projects re-instated
- CBILS/BBLS lending underway
- Enhanced customer insight/engagement
- Return to workplace planned only when appropriate

Buy-to-let

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Increasingly specialist lending with loan book growth and improving NIM

New lending

- Increasing focus towards specialist lending
- Mid-March onwards volumes impacted
- Pipeline £789.8 million, up from £711.1 million in H1 2019
  - Specialist lending completions 92% (H1 2019: 88%)

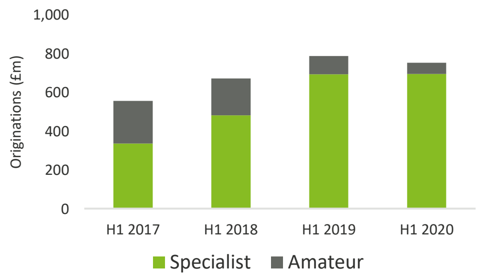
Redemptions

- Slower redemptions due to:
  - More professionals / complex
  - Increased long term fixed rates
  - Covid-19
  - Better customer retention activities

Net loan book

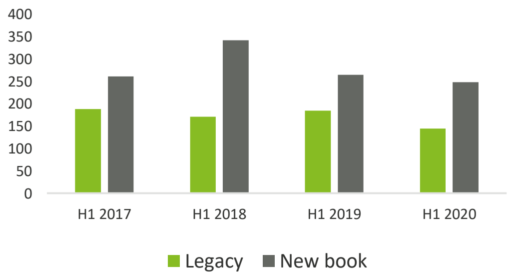
- Down 1.1% on H1 2019 but up 6.0% excluding PM12 balances from H1 2019
- NIM improvements in both new book and legacy support income growth

Originations (£m)



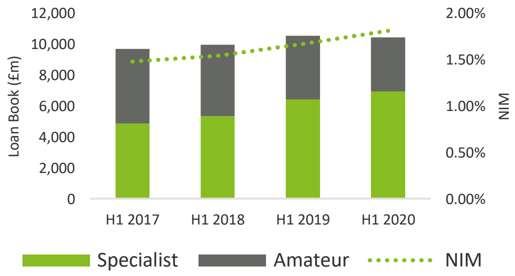
Source: Paragon Banking Group PLC

Redemptions (£m)



Source: Paragon Banking Group PLC

Net loan book and margin (£m)



Source: Paragon Banking Group PLC

Buy-to-let

Defensive asset quality

Prime quality loan book

- Arrears rates consistently lower than industry average

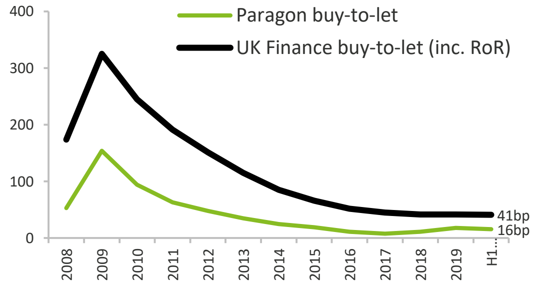
Strong asset backing

- Significant asset backing strengthened since 2008
- Average LTV 67.7% (Sept-08 – 80.7%)
- £6.1 billion surplus landlord equity
- LTV greater than 90%, 2.0% (Sept-08 – 30.9%)
- LTV greater than 80%, 8.6% (Sept-08 – 63.4%)

Strong tenant demand continuing

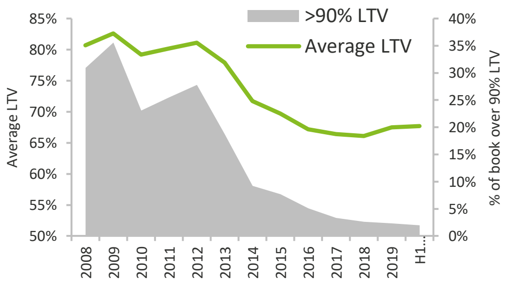
- Strong fundamental tenant demand
- Shift in channel to online, highlighting sharp recovery and pent up demand
- Expected to remain strong as first-time buyer numbers weaken

Arrears rate – 3mths+ (bp)



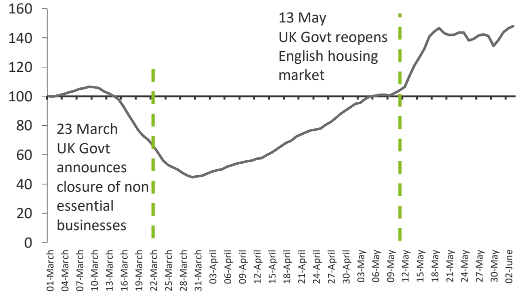
Source: Paragon Banking Group PLC

Average LTV



Source: UK Finance, Paragon Banking Group PLC

UK housing rental market activity pre and post Covid lockdown



Source: Zoopla Research

Buy-to-let – payment holidays expected to fall

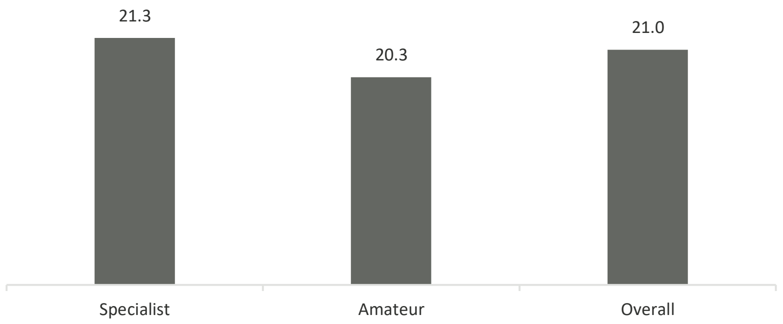
Payment holidays

- 17.9% customers granted payment holiday, representing 21.0% of loan book by value
- 97.2% of payment holidays to accounts with sub 90% LTV
- Specialists slightly more likely to have asked for Covid-19 relief

Customer insight pointing to significant reduction in forbearance requirements

- Customer contact: to date, 73% expect to recommence payments in full, with no indication of stress; 27% currently undecided
- Survey: only 2% expect severe hardship resulting in their losses

Proportion of book value with payment holidays (%)



Source: Paragon Banking Group PLC

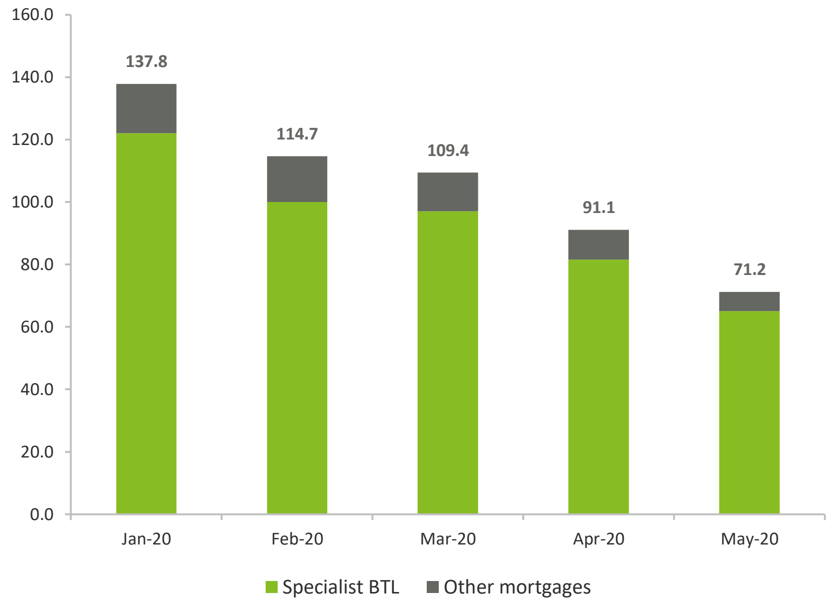
As at 31 May 2020

Mortgages – current trading

New lending flows impacted by Covid-19 but will expand from current level

- Buy-to-let pipeline reduced from March level due to restrictions on LTV and HMO lending
  - 31 March 2020 – £789.8 million, 31 May 2020 – £598.7 million
- Action taken
  - Full product suite maintained but LTV capped at 75%
  - Pricing increased above 70% LTV
  - Desktop approach adopted for valuations subject to confidence levels
- HMO/complex property new business sharply impacted in lockdown
- Application flows now improving, completions will follow
  - Housing market re-opened
  - Physical valuations supports lending on complex properties
  - Reduction in competition from non-bank lenders

Mortgages new business (£m)



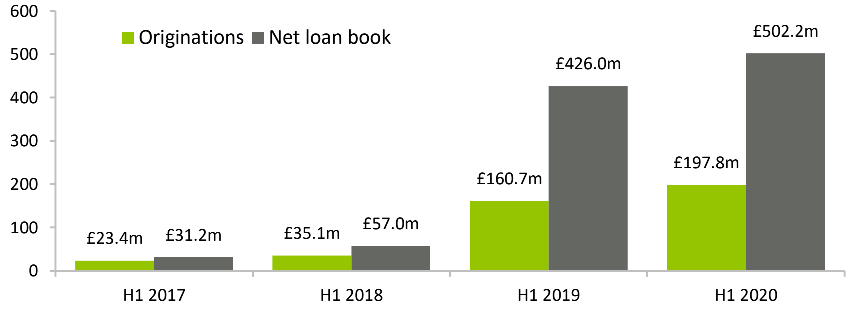
Source: Paragon Banking Group PLC

Commercial Lending – development finance

Continued growth and progress whilst enhancing resilience

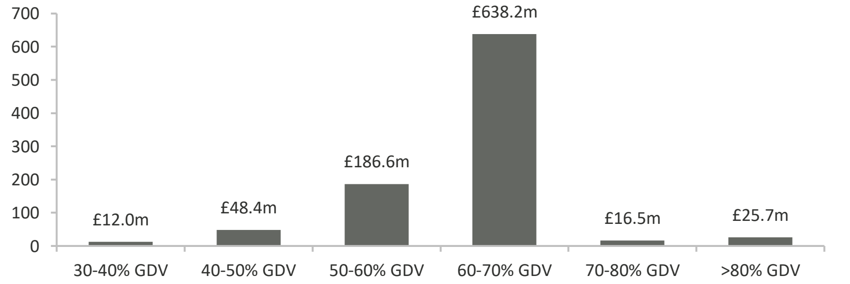
- In-house start-up enhanced by purchase of Titlestone in 2018
- Highly experienced, risk averse management team
- Enhanced risk mitigation employed post-acquisition
  - Avoiding central London hotspots
  - Increasing geographical footprint
  - Average price point reduced reflecting changing demand expectations
  - Reduced development concentration risk
- Originations mainly through direct relationship channels
- Average facility, £4.3 million at 65.9% of GDV

Originations and loan book growth (£m)



Source: Paragon Banking Group PLC

Value of facilities by % of GDV (£m)



Source: Paragon Banking Group PLC

Development finance – payment holidays and customer insight

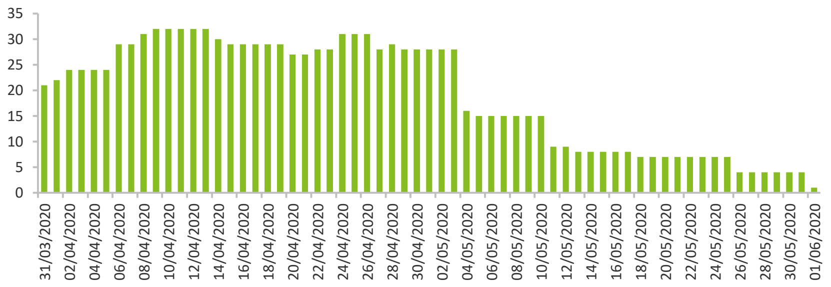
Majority of sites remained open throughout

- Covid site closures peaked at 32, representing 22% of portfolio (where ground broken) but quickly recovered
- Only one site still closed as at 1 June 2020
- c60% operational capacity in April maintained during lockdown c73% achieved in May
- Primary drivers for site closures were:
  - Social distancing
  - Supply chain

Forbearance summary

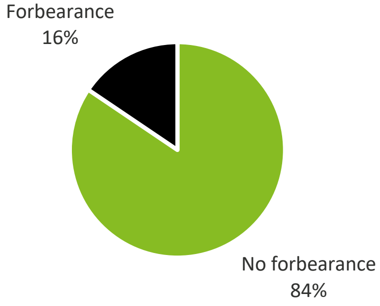
- Forbearance given on 15.6% of portfolio
- Forbearance concessions:
  - Where interest allowance exhausted but sales delayed – agreed interest deferral, reviewed monthly
  - Where facilities due to be repaid but delayed – supported developers by extending for 3 months, waiving new extension fee and deferring exit fee
- Average LTV of 62% on forborne cases

Site closures (number)



Source: Paragon Banking Group PLC

Forbearance profile



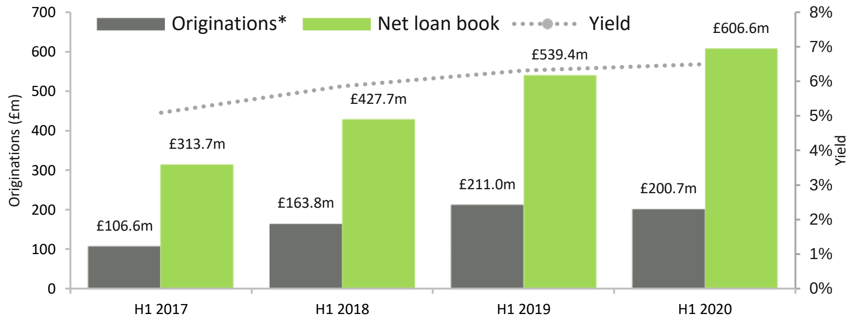
Source: Paragon Banking Group PLC

Commercial Lending – SME lending

Further progress built on strong credit focus

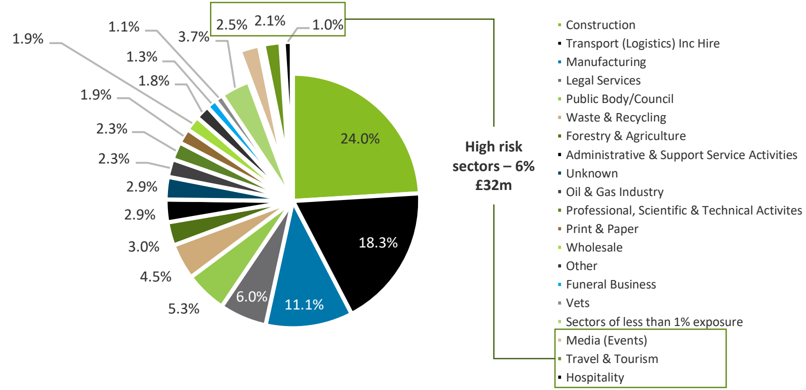
- SME lending division built out of acquisition of Five Arrows Asset Finance in 2016 and two further specialist acquisitions
- Business has a strong, multi-channel capability (brokers, distributors, direct)
- Focus on hard assets, leveraging valuation and recovery expertise
- Enhancing service delivery and improving technology
- Limited exposure to most vulnerable Covid-19 related sectors

Originations and loan book growth (£m)



Source: Paragon Banking Group PLC

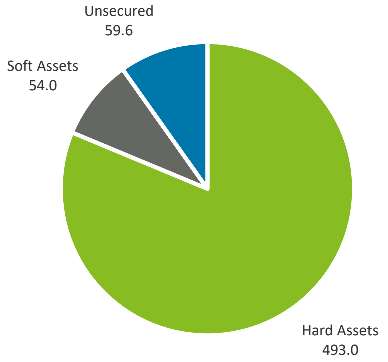
Exposure by sector



Source: Paragon Banking Group PLC

As at 31 May 2020

Exposure by lending type (£m)



Source: Paragon Banking Group PLC

As at 31 March 2020

SME lending – payment holidays and customer insight

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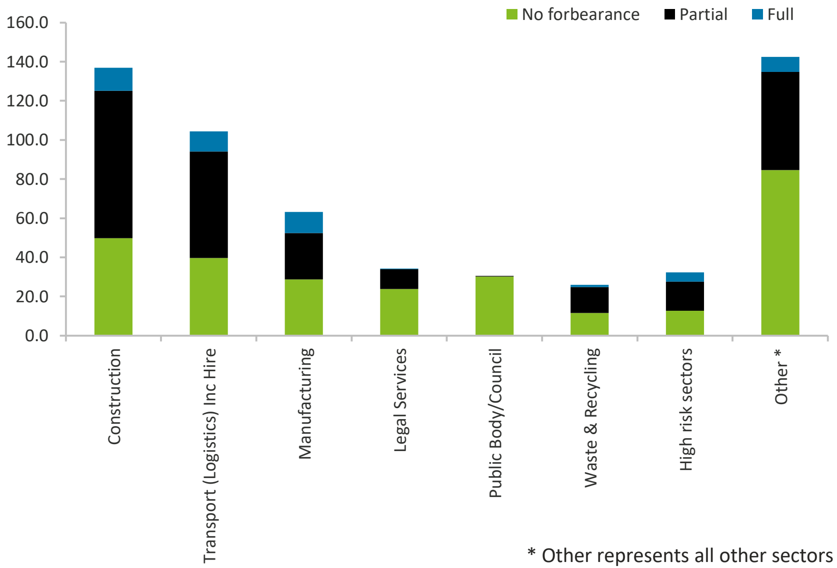
Payment holidays

- Extensive use of payment holidays
- As at 31 May, as a proportion of these payment holidays:
  - 84% making partial payments
  - 16% with full payment holiday applied

Customer insight points to reducing forbearance requirement

- Detailed contact programme underway
- Assessing resilience of customers and tracking intentions / expectations
- CBILS lending commenced and BBLS launch imminent
- 9% of payment holiday accounts added to “watchlist” reflecting 4.5% of the portfolio

Sector exposure (£m)



* Other represents all other sectors that are each below £20m exposure

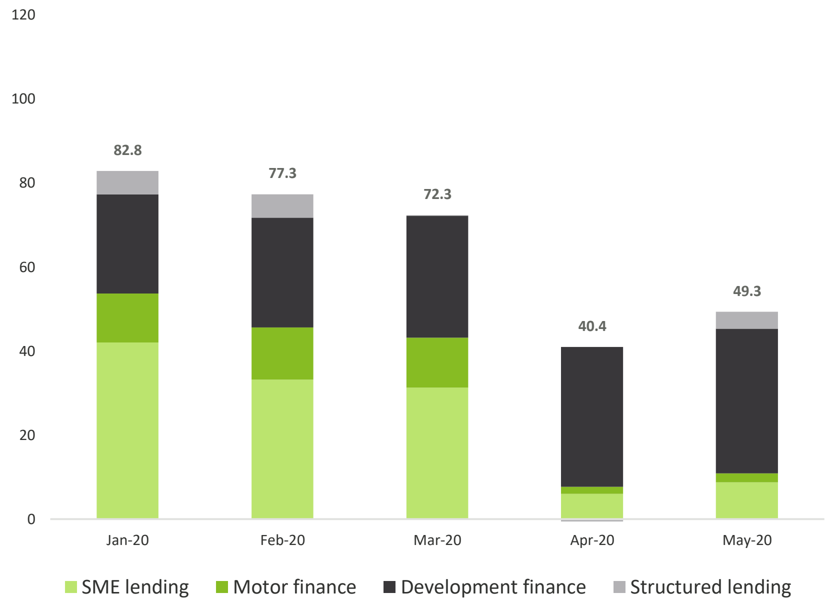
Source: Paragon Banking Group PLC

Commercial Lending – current trading

Current trading robust particularly in development finance

- SME lending and motor finance new business impacted most by Covid-19 due to business and car showroom closures
- CBILS and BBLS will aid SME lending volume recovery
- Motor finance volume expected to improve with car forecourts opening
- Development finance will benefit from reduced competition from non-bank lenders

Commercial Lending new business (£m)



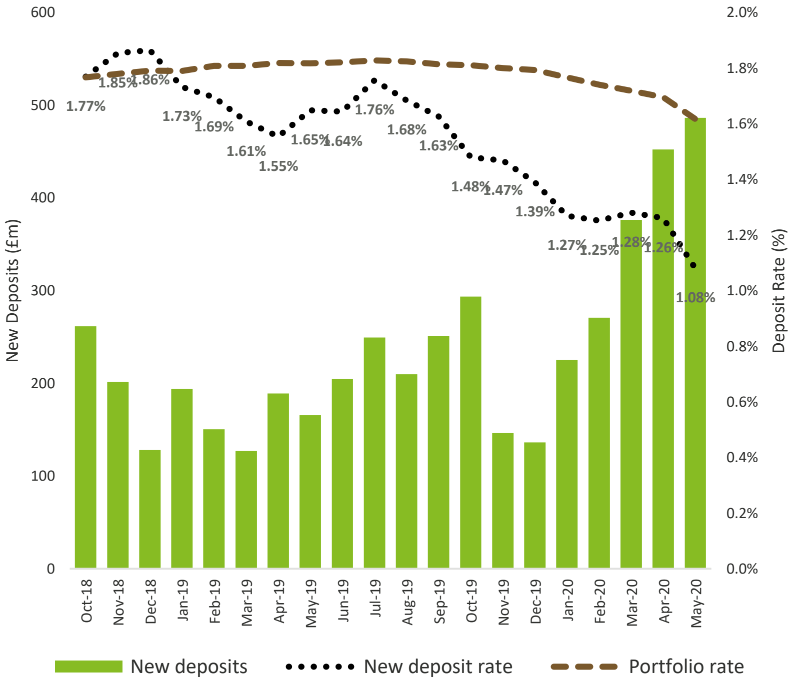
Source: Paragon Banking Group PLC

Strength of the deposit franchise

Expanding our addressable market in a changing market

- **Built strong franchise**
  - £6.9 billion balance at 31 March 2020, £7.5 billion at 31 May 2020
  - Significant reduction in front book pricing
  - Outstanding service proposition (NPS +62)
- **Expanding addressable market and capability**
  - Expanding product, customer and channel to build capacity
  - Developing platform relationships – Hargreaves Lansdown, Monzo, Flagstone – Revolut added in period
  - Broad product range
  - Investing further in capability – people, data and knowledge
- **New disruptive market model is emerging**
  - Open Banking could present a further £800 billion plus opportunity
  - Covid-19 accelerating digital engagement
  - Leading to a flattening of competitive deposit cost curve
- **Complementing broader funding programme**
  - Approved for TFSME drawings
  - Fully owned securitisation completed post-period end enhancing contingent funding

New deposits (£m) / deposit rate (%)



Source: Paragon Banking Group PLC

Conclusion

Covid-19 swift response with resilience

- Swift response to Covid-19 with agile operational capabilities
- Defensive balance sheet
  - High asset quality, 98% secured
  - 14.4% CET1
- Protecting customers, whilst safeguarding capital base
  - Payment holidays
  - CBILS / BBLS

Well positioned for an uncertain environment

- Cautious approach to IFRS9 overlay
- BTL volumes re-building; tenant demand strong
- Competitive environment improved
- Lending criteria already tight; adapted to the environment
- Planning underway for a new environment
  - Further changes to digital engagement
  - Operating models – a new way of working
- Further opportunities will emerge as the world settles to a new order

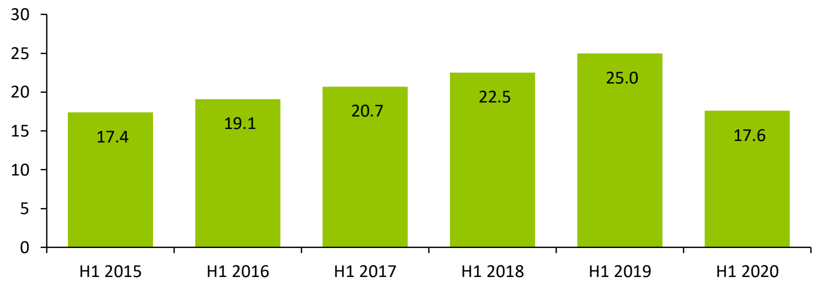
Appendix

Building a specialist bank

Long-term sustainable delivery with change

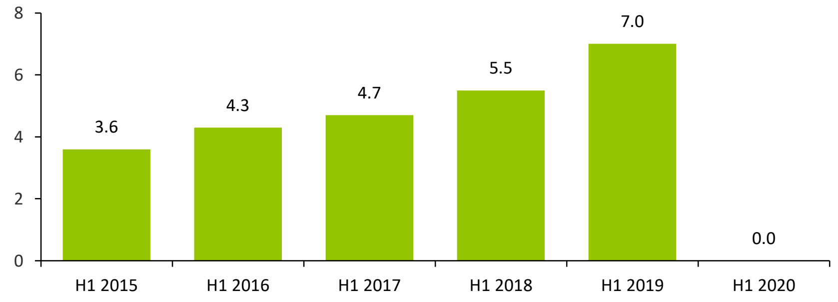
- Strategic transformation whilst improving returns
  - Bank formation and subsequent restructuring
  - 4 acquisitions
  - 5 start-ups
  - Technology investments
  - Capital management
  - Embedding IRB approach

Underlying earnings per share (pence)



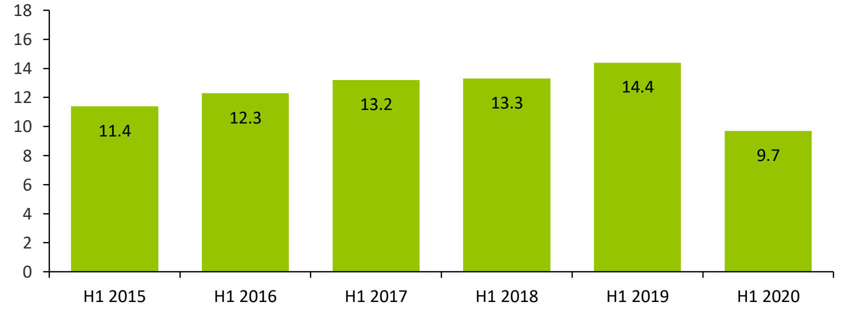
Source: Paragon Banking Group PLC

Dividend per share (pence)



Source: Paragon Banking Group PLC

Underlying return on tangible equity (%)



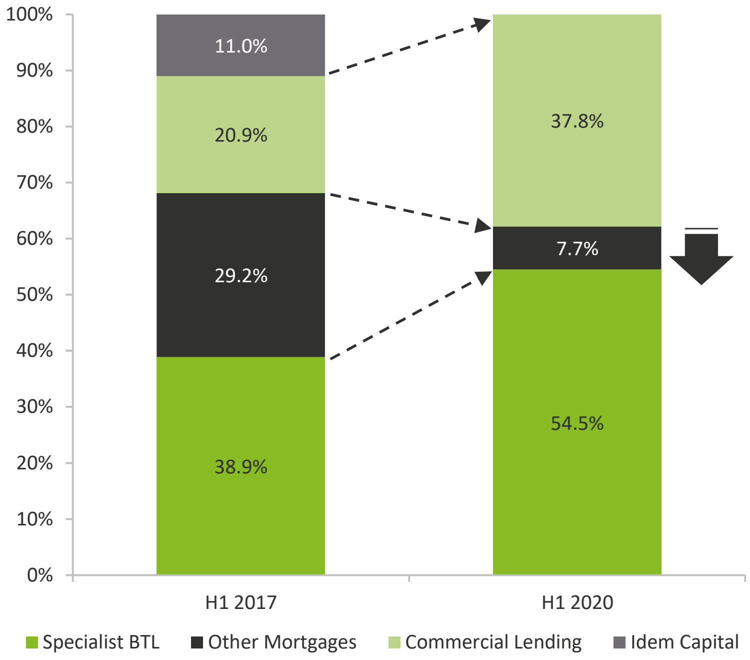
Source: Paragon Banking Group PLC

Building a specialist bank

Increasingly focused on specialist BTL and SMEs

- Specialist focus avoids low return commoditised sectors
- As a specialist we seek to achieve a deeper understanding of:
    - Markets in which we operate
    - Customers we serve
    - Products we offer
    - Services we provide
    - Risks we incur
- Supporting UK consumers, property investors, homeowners and small businesses' financing needs
    - Extensive product suite
    - Enhancing distribution and service through technology
    - Highly experienced customer engagement still crucial

Significant shift in flow of new loan originations in 3 years (%)

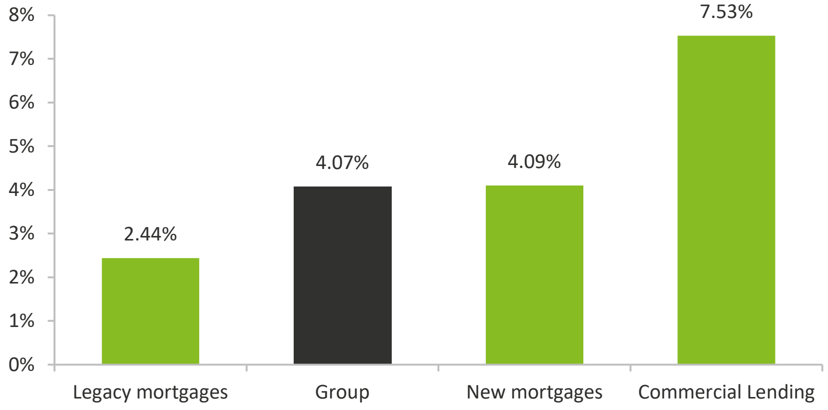


Source: Paragon Banking Group PLC

Structural improvement in NIM

Our front book / back book structural dynamic is rare in today's UK banking market

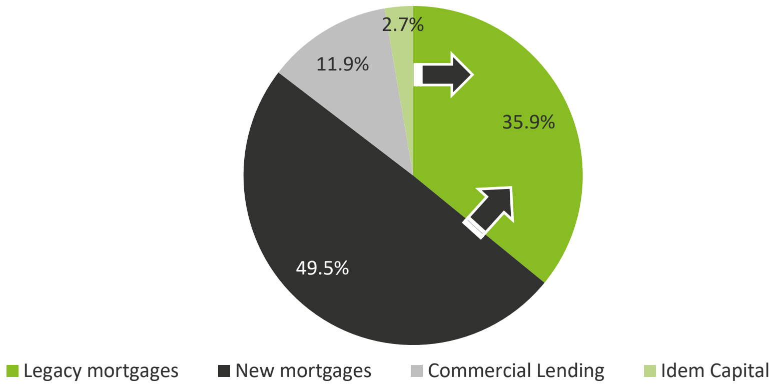
Evidenced via higher yields in new portfolio



Source: Paragon Banking Group PLC

Swapping lower margin legacy book for higher margin BTL / SME

Drag from Idem Capital materially less significant from FY 2021



Source: Paragon Banking Group PLC

Net interest income

Structural NIM improvement continues

Overall

- NIM increased by 5bp to 229bp, which included a 6bp reduction from Covid-19 overlays in Idem Capital

Mortgages

- Margins stable on new BTL lending
- Front book NIM wider than legacy portfolio

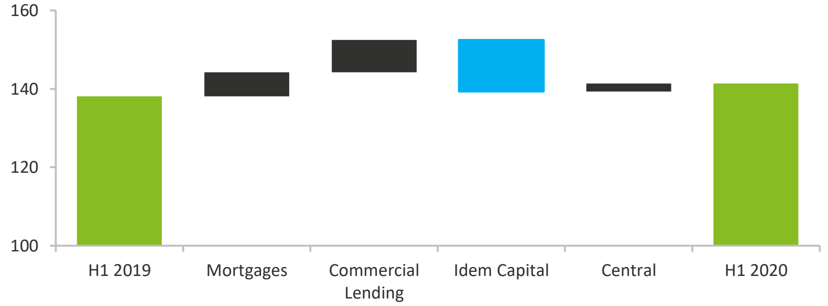
Commercial Lending

- Strong growth, improving margins and focus on capital allocation
- Fastest growing segments are development finance (post Titlestone acquisition) and SME lending

Idem Capital

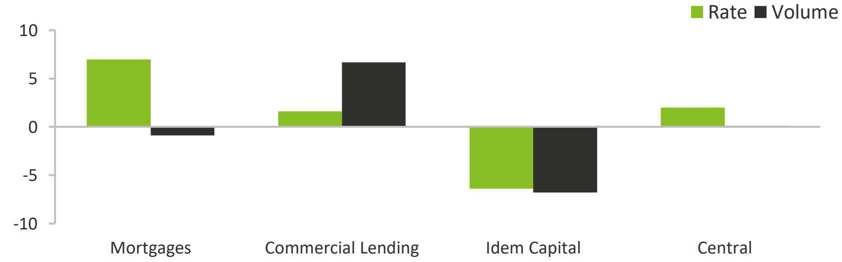
- Portfolio amortisation continues
- Portfolio continues to perform strongly pre Covid-19

Net interest income (£m)



Source: Paragon Banking Group PLC

Rate and volume influences (£m)



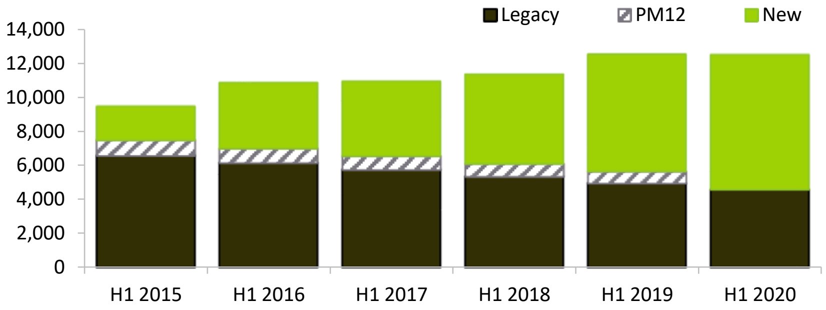
Source: Paragon Banking Group PLC

Diversification

Diversified loan growth

Originations £million	H1 2020	H1 2019	Change
Specialist BTL	694.6	693.1	+0.2%
Other mortgages	98.2	140.8	(30.3%)
Commercial Lending	481.3	455.3	+5.7%
Idem Capital	0.0	0.0	0.0%
Total	**1,274.1**	**1,289.2**	**(1.2%)**

Total – loans and advances to customers (£m)



Source: Paragon Banking Group PLC

Diversified funding

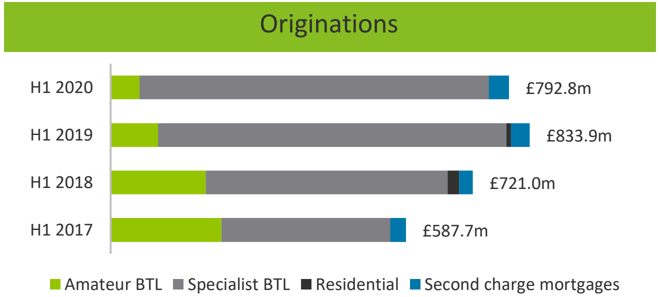
Funding by type (£m)

Source: Paragon Banking Group PLC

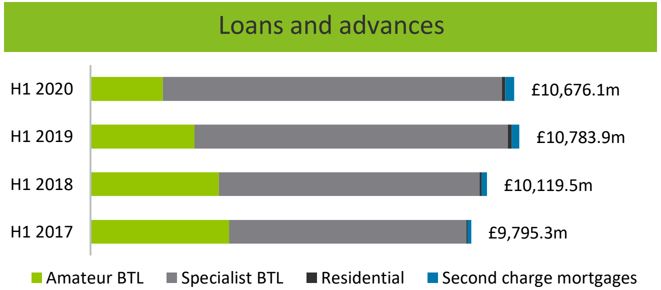
Mortgages

Steady underlying growth and structural NIM improvement

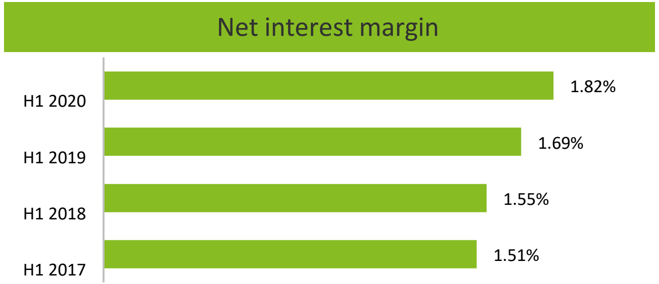
- BTL new advances stable
- Specialist residential lower as guided
- Redemptions lower (7.8% v 8.7%)
- NIM favourable as low yield legacy book amortises
- New BTL margins stronger in 2020 reflecting lower swap costs and lower customer attrition



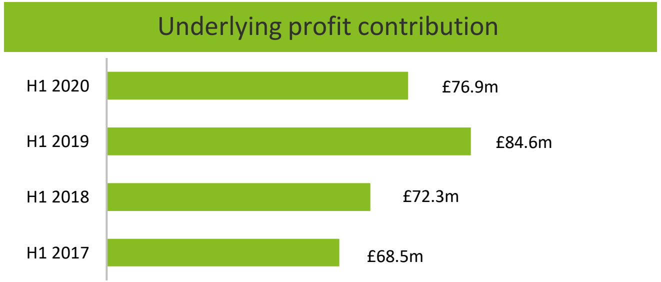
Source: Paragon Banking Group PLC



Source: Paragon Banking Group PLC



Source: Paragon Banking Group PLC



Source: Paragon Banking Group PLC

Buy-to-let

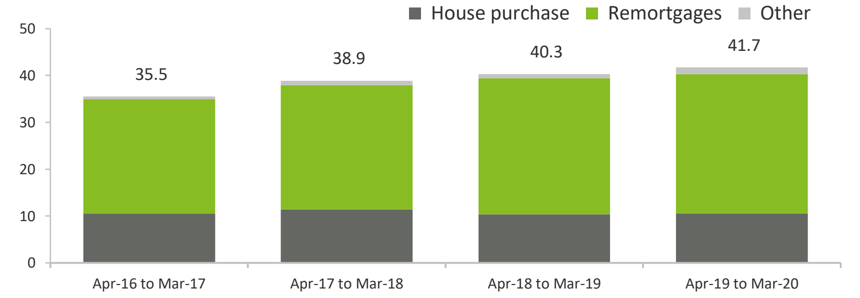
Market

- Despite fiscal and regulatory changes, BTL volumes remained robust
- Remortgage activity continues to dominate (71.2%)
- Purchase activity increasingly focused towards specialist landlords

Paragon

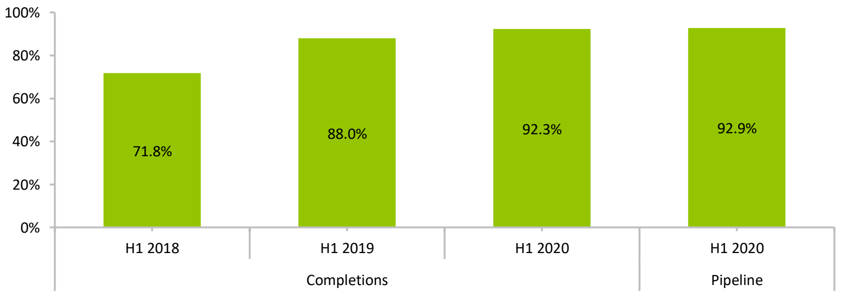
- BTL new lending £0.75 billion down 4.5% year-on-year
  - Specialist +0.2%
  - Amateur -38.8%
- New technology platform significantly improving intermediary experience (NPS+60)
- New business margins remain robust
- Pipeline +11.1% at £789.8 million

BTL gross mortgage lending (£bn)



Source: Paragon Banking Group PLC

Specialist BTL lending (%)



Source: Paragon Banking Group PLC

Supporting the housing needs of Britain's renters

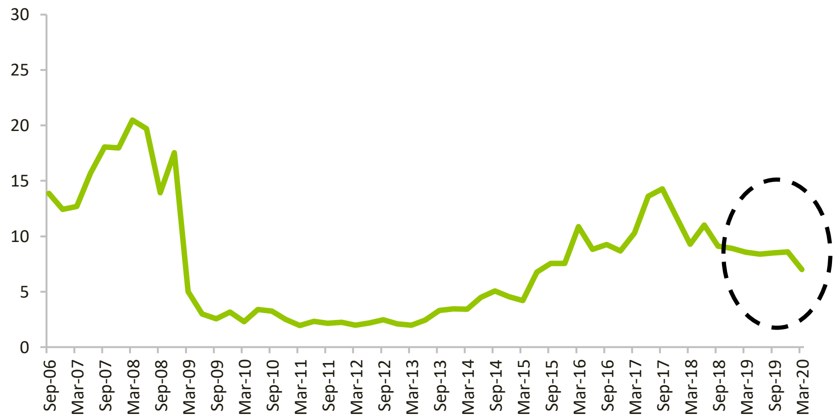
Buy-to-let

Keeping our customers for longer

- Redemption levels dropped in H1 2020
- Specialist landlords showing improved loyalty
  - Improved retention strategies – direct and broker initiatives
  - 5 year products extending redemption profile
- Expect lower redemption levels trend to continue

- Net loan book growth excluding PM12 disposal of 6.0%, down from 6.9% in H1 2019 but up from 3.6% in H1 2018
- Net loan book growth excluding pre 2010 legacy and PM12 was 18.6% in H1 2020

BTL redemptions (%)



Source: Paragon Banking Group PLC

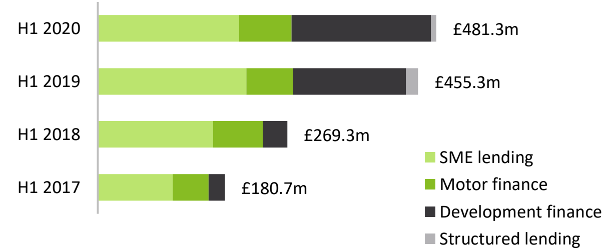
Supporting the housing needs of Britain's renters

Commercial Lending

Divisional development accelerated by 2018 Titlestone acquisition

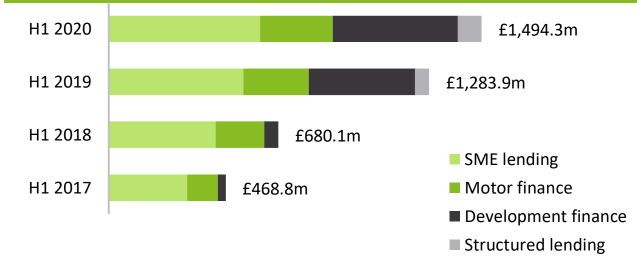
- Development finance advances up 23.1%
- Motor finance advances 13.3% higher
- SME lending 4.9% lower with further investment in origination and servicing capabilities
- NIM improvement reflects mix change (Titlestone acquisition impacts), rate of improvement expected to slow going forward

Originations



Source: Paragon Banking Group PLC

Loans and advances



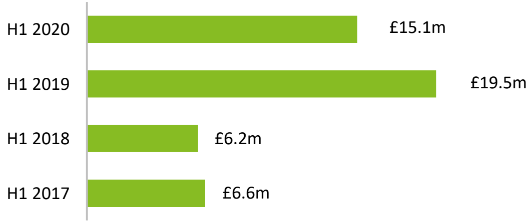
Source: Paragon Banking Group PLC

Net interest margin *

* Calculated over average monthly balances

Source: Paragon Banking Group PLC

Underlying profit contribution



Source: Paragon Banking Group PLC

Idem Capital

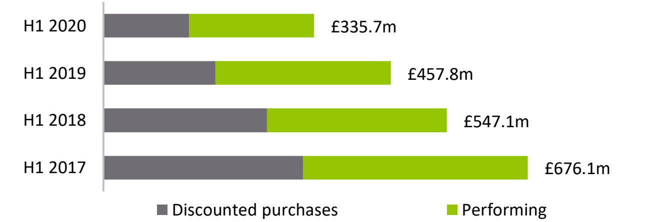
Portfolio amortising quickly given strong cash performance

- NIM reduction reflects September 2018 portfolio sale and portfolio amortisation
- Unsecured loans -31.8% year-on-year, secured -23.5%
- Underlying trend set to continue as capital allocated to stronger returns in Commercial Lending segment. Headwind reducing over time
- Focus on augmenting origination flows (mortgages and commercial) rather than discounted consumer assets while risk / return profile remains unattractive

Investments

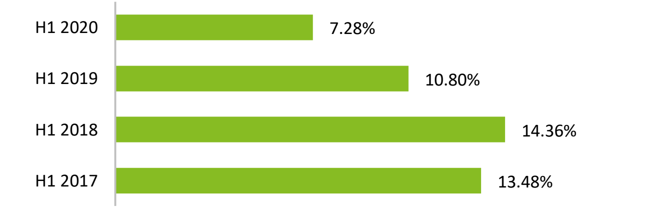
Source: Paragon Banking Group PLC

Loans and advances



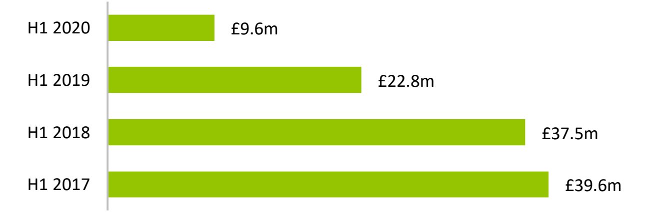
Source: Paragon Banking Group PLC

Net interest margin



Source: Paragon Banking Group PLC

Underlying profit contribution



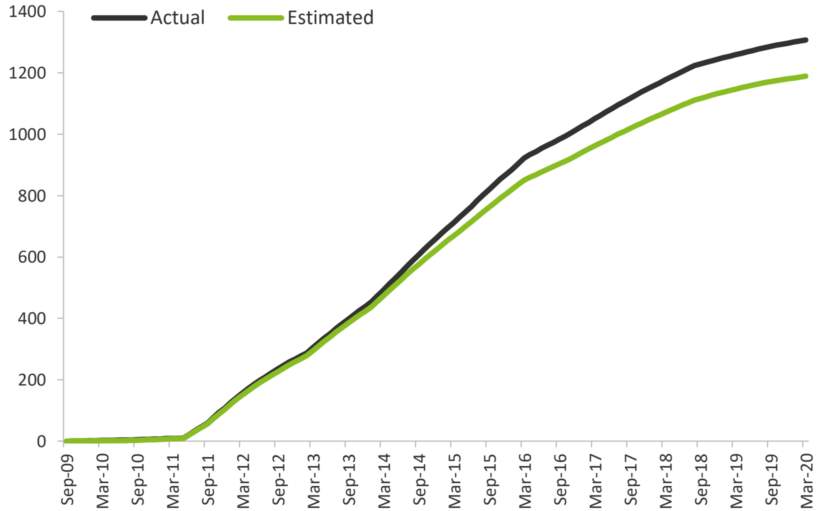
Source: Paragon Banking Group PLC

Idem Capital

Opportunistic investments whilst maintaining strict pricing and quality discipline

- Portfolio continues to perform well – cash flow 109.9% of expectations
- Market remains highly competitive. Pricing has softened a little but still remains high
- Maintained disciplined approach to pricing and quality – marginal RoTE below hurdle rate – capital allocated elsewhere
- Division structured with low fixed costs
  - Centralised consumer servicing employees reduced from 399 in 2014 to 190 through natural attrition and redeployment across the Group
  - Management team supporting wider Group activities

Cumulative portfolio cash flow (£m)



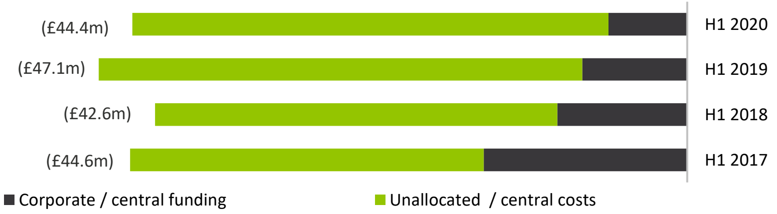
Source: Paragon Banking Group PLC

Central

Central funding stable, but costs higher reflecting project spend

- Next corporate debt maturity scheduled in December 2020
- Central costs include technology spend and IRB project expenditure
- Management incentives across the Group financed here

Underlying profit / (loss) contribution



Source: Paragon Banking Group PLC

Underlying operating leverage*

Source: Paragon Banking Group PLC

* Central operating costs as a proportion of total operating costs

Balance sheet

£million	H1 2020	H1 2019	Change (%)	
Mortgages	10,676.1	10,783.9	(1.0%)	Reflects £0.7 billion PM12 disposal in May 2019
Commercial Lending	1,494.3	1,283.9	+16.4%	Led by development finance and SME lending
Idem Capital	335.7	457.8	(26.7%)	Strong cash flow amortising portfolio
Loans and advances to customers	**12,506.1**	**12,525.6**	**(0.2%)**	
Cash	1,206.8	1,072.0	+12.6%	
Other assets	976.3	1,056.4	(7.6%)	
Total assets	**14,689.2**	**14,654.0**	**+0.2%**	
Capital and reserves	1,122.0	1,087.0	+3.2%	Net of buy-backs, dividends and pension move
Retail deposits	6,911.9	5,878.0	+17.6%	Further funding diversification
Tier-2 bond	150.0	150.0	-	
Retail bonds	297.5	297.5	-	First maturity December 2020
Asset backed loan notes	4,766.5	6,064.9	(21.4%)	PM12 disposal
Central bank facilities	1,199.4	984.4	+21.8%	TFS, ILTR and CTRF
Other liabilities	241.9	192.2	+25.9%	
Total liabilities and equity	**14,689.2**	**14,654.0**	**+0.2%**	

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