

The Paragon Group of Companies PLC

Results Presentation

Year ended 30 September 2009



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Section 1

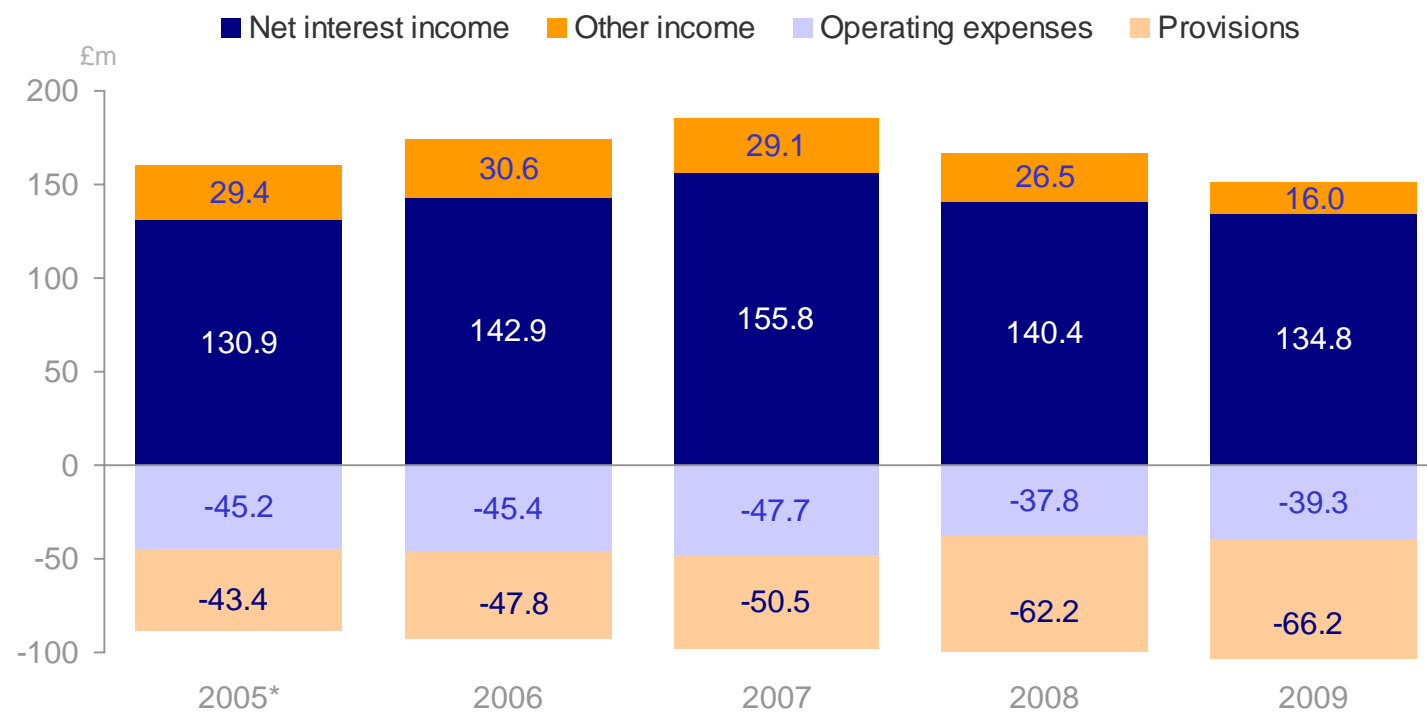
Financial results

For the year ended 30 September 2009

Financial highlights

	2009 £m	2008 £m
Pre-tax profit	54.3	53.7
Of which:		
Exceptionals	12.4	-7.8
Fair value	-3.4	-5.4
Underlying profit	45.3	66.9
Tax rate	24.3%	30.9%
Dividend per share (total)	3.3p	3.0p
Shareholder funds per share @ 30 September	221p	209p

Operating profits



* proforma

Half-year breakdown

	2009: H2 £m	2009: H1 £m	
Underlying profit	26.4	18.9	H2 profit growth
Of which:			
Impairments	-27.5	-38.7	Impairments fell in both First Mortgages and Consumer Finance
Income	74.3	76.5	Margins increased, but income fell due to lower interest rates
Costs	-20.4	-18.9	H2 costs reflect new staff additions for 3 rd party contracts
Cost:income	27.5%	24.7%	Servicing activities have higher cost:income ratio

Exceptional items

	2009 £m	2008 £m
Gains on debt repurchased	18.4	-
Goodwill impairment	-6.0	-
Rationalisation and other exceptional costs	-	-7.8

Range of securities purchased:

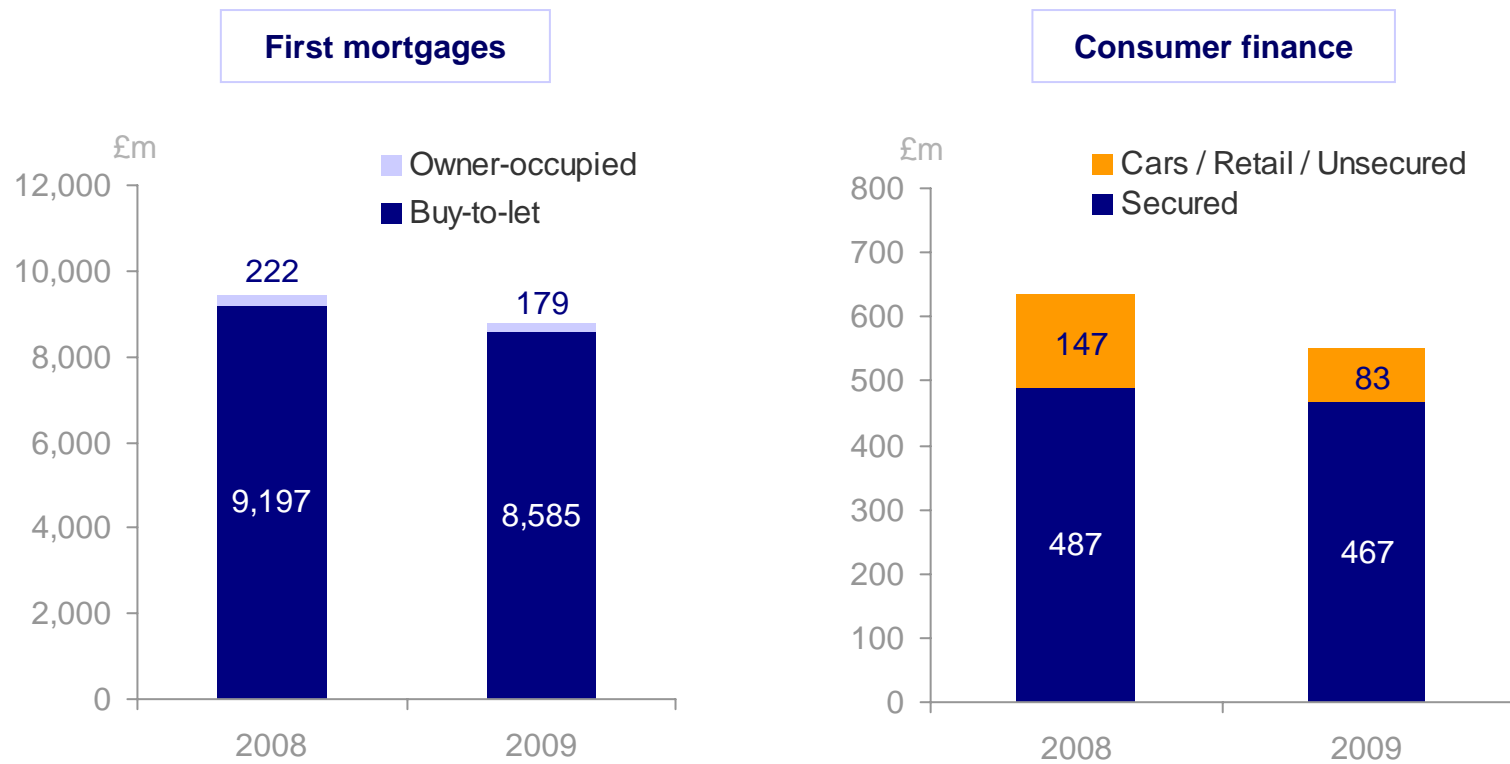
- AAA, AA, A securitised bonds
- Corporate bond

Goodwill in broking business written down

Group debt repurchased

	Nominal value purchased £m	Cost of Purchase £m	Gain on Purchase £m
Securitised bonds	27.7	-13.6	14.1
Corporate bond	10.0	-5.4	4.6
Costs	-	-0.3	-0.3
	<u>37.7</u>	<u>-19.3</u>	<u>18.4</u>

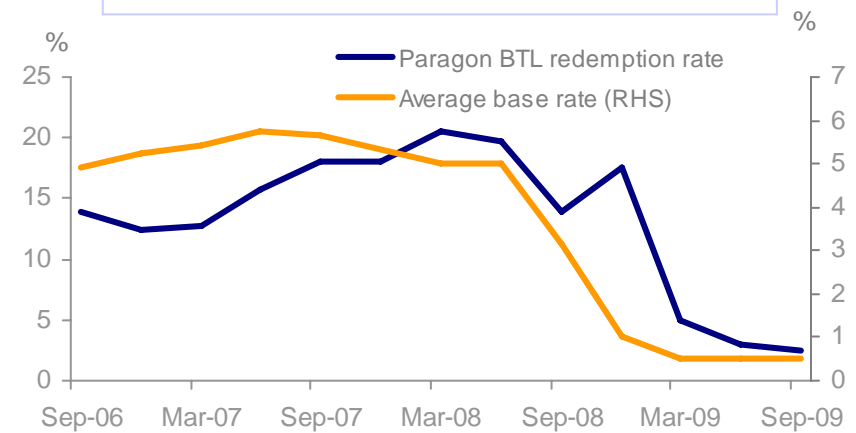
Segmental loan assets



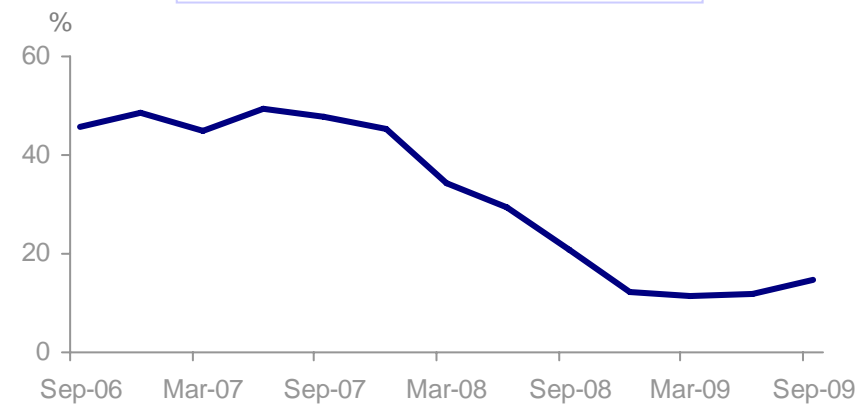
Segmental redemption rates

- Buy-to-let redemption rates have fallen significantly
- Buy-to-let reversionary rates compare favourably to current market rates
- Secured redemption rate remains at very low level
- Alternative products in both markets remain restricted

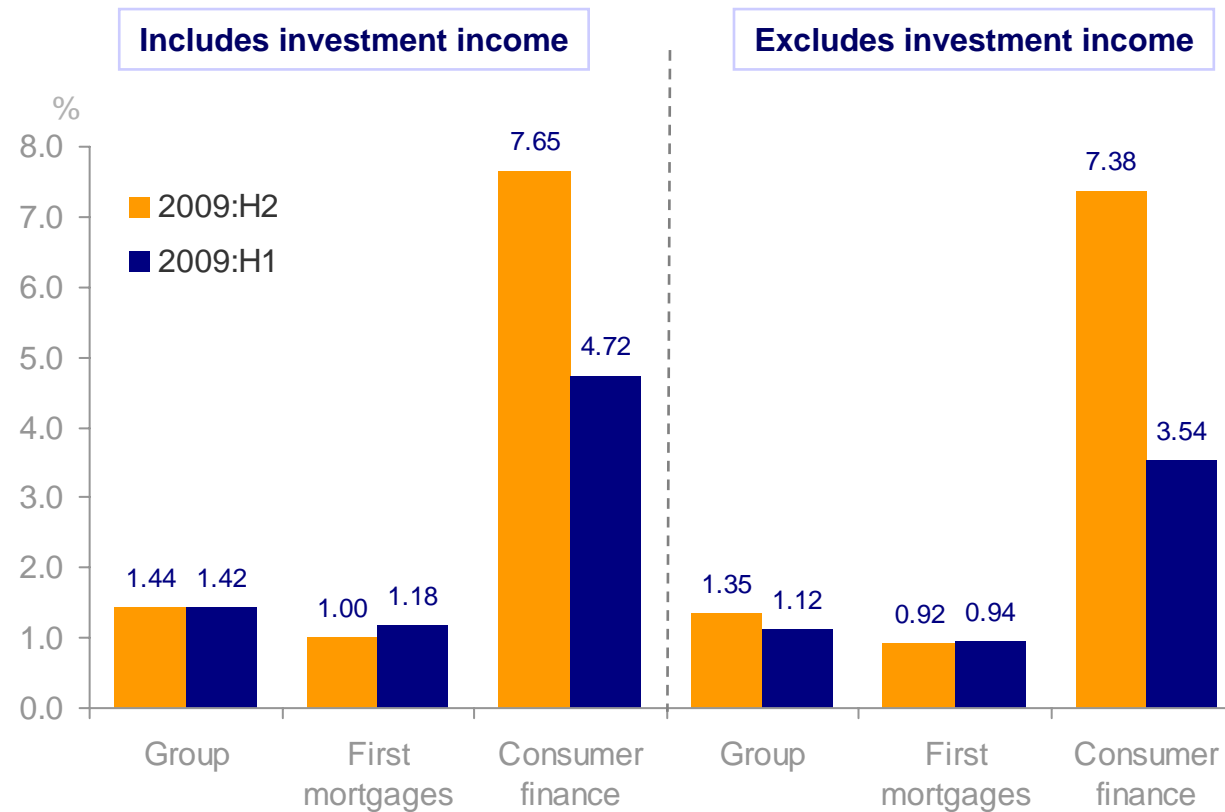
Paragon buy-to-let redemption rates



Paragon secured redemption rate

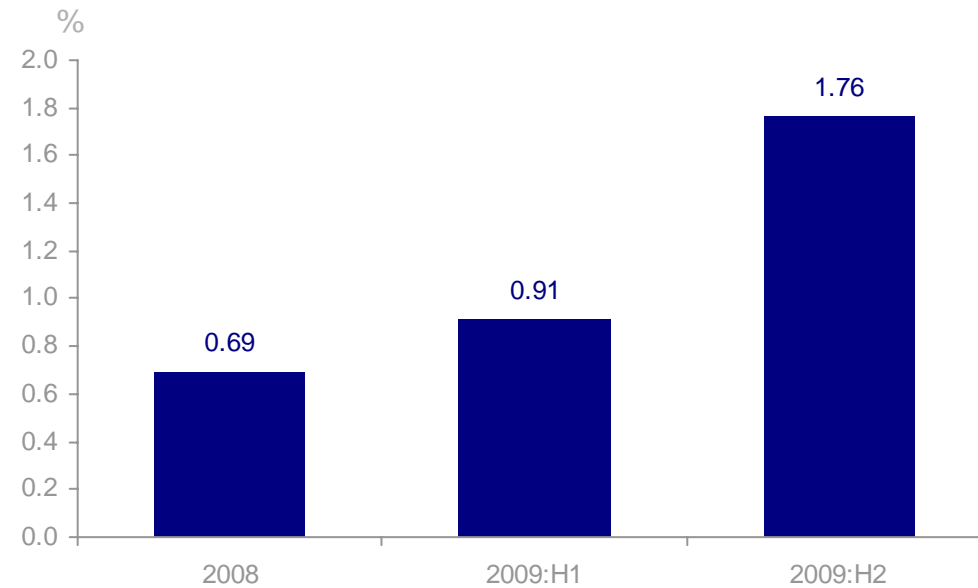


Net interest margin



Cash margins

- Cash margins increased as redemptions fell
- More borrowers maintain higher reversionary mortgage margins
- Majority of remaining fixed rate products revert to reversionary rates H1:2010
- Cash balances at year end £84m



Section 2

Strategic objectives

Strategic objectives

**Protection of
embedded value by
close management of
portfolio**

**Business positioned
to enable new
lending in future**

**Development of new
sources of income
utilising existing
skills/resources**

Strategic objectives

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Management of existing assets

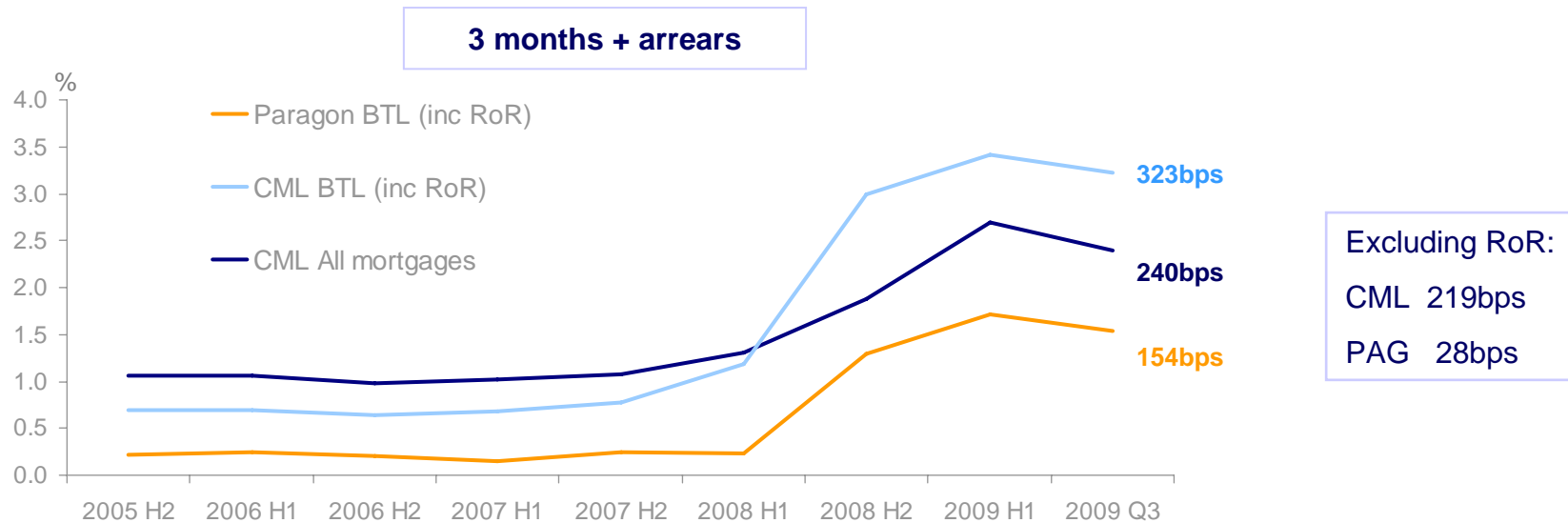
Customer retention

- Redemption rates low and likely to stay low
- Affected by market conditions
- Fixed rate product switch activity

Arrears management

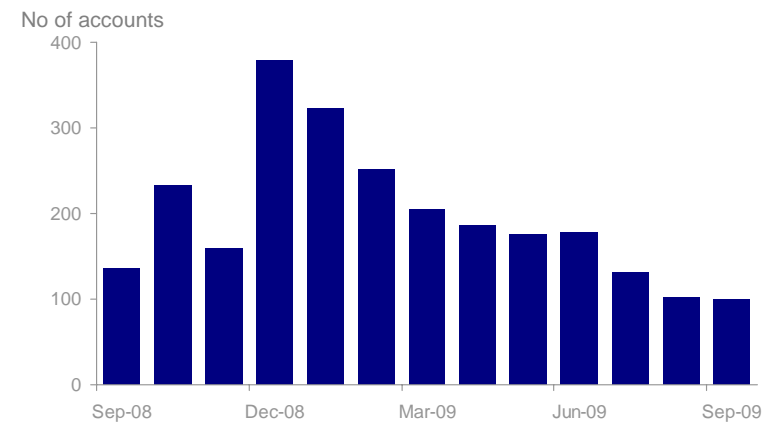
- Division well resourced going into downturn
- Capacity enhanced further
- In-house LPA receivership capability established

Buy-to-let arrears

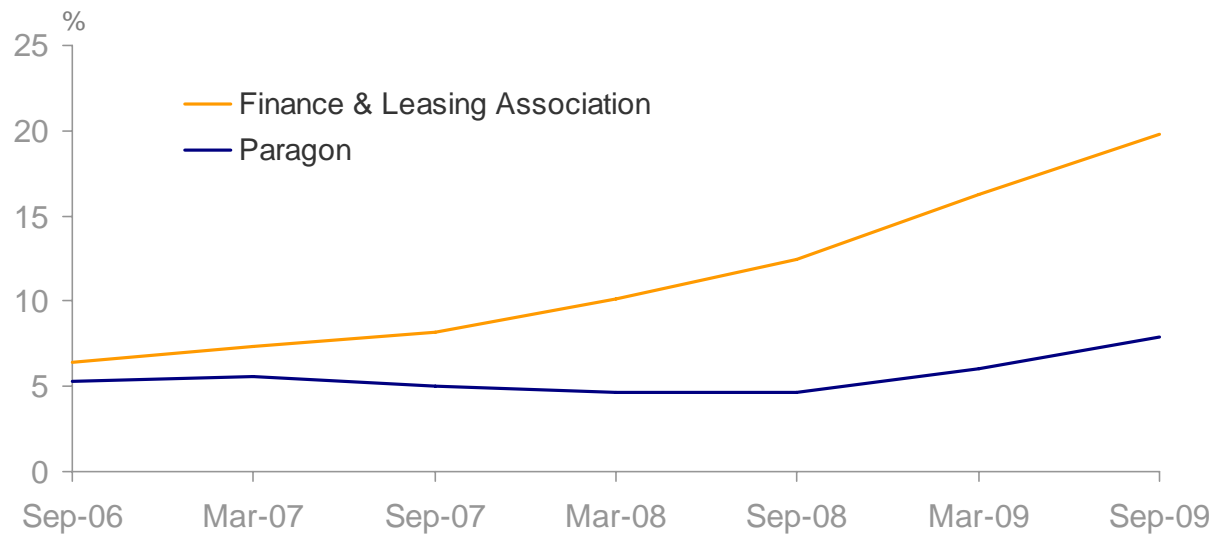


- Improvement in arrears trends
- Paragon arrears performance continues to exceed the market
- New arrears flow continues to slow
- Receiver of Rent process continues to be effective – 91% of available properties are let, cashflows strong

Paragon's new 3 months + arrears



Consumer (secured) arrears



- Paragon's secured arrears remain significantly below industry averages
- Successful collections activity – 74% average monthly received v due

Buy-to-let arrears process

- Materially different to residential mortgages
- Preference is always to reach satisfactory arrangement with customer
- Application of Receiver of Rent:
 - Return the mortgage to a performing loan whilst recognising financial difficulties of landlord
 - Control of property and rental income, whilst managing an orderly exit
 - Case-by-case decision-making
 - Property better maintained, at borrower's cost
 - Minimise loss
- Repossession is always a last resort

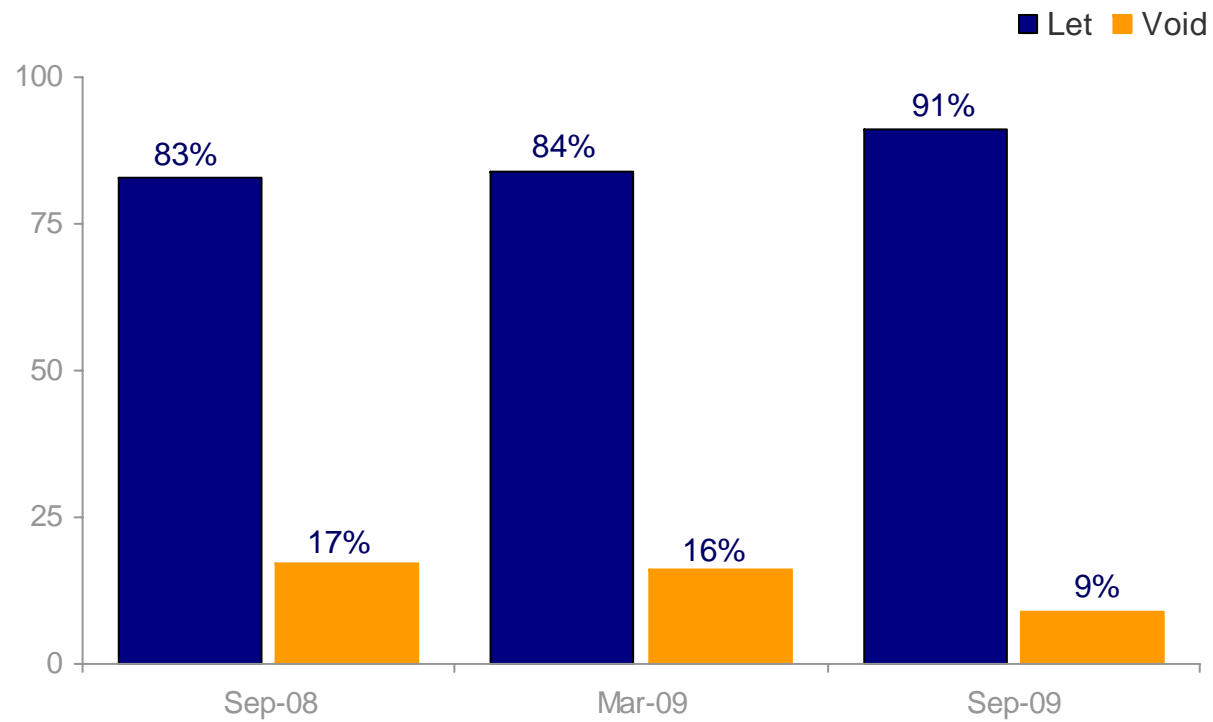
84% of 3 months plus arrears are subject to Receiver of Rent

91% of Receiver of Rent properties are let

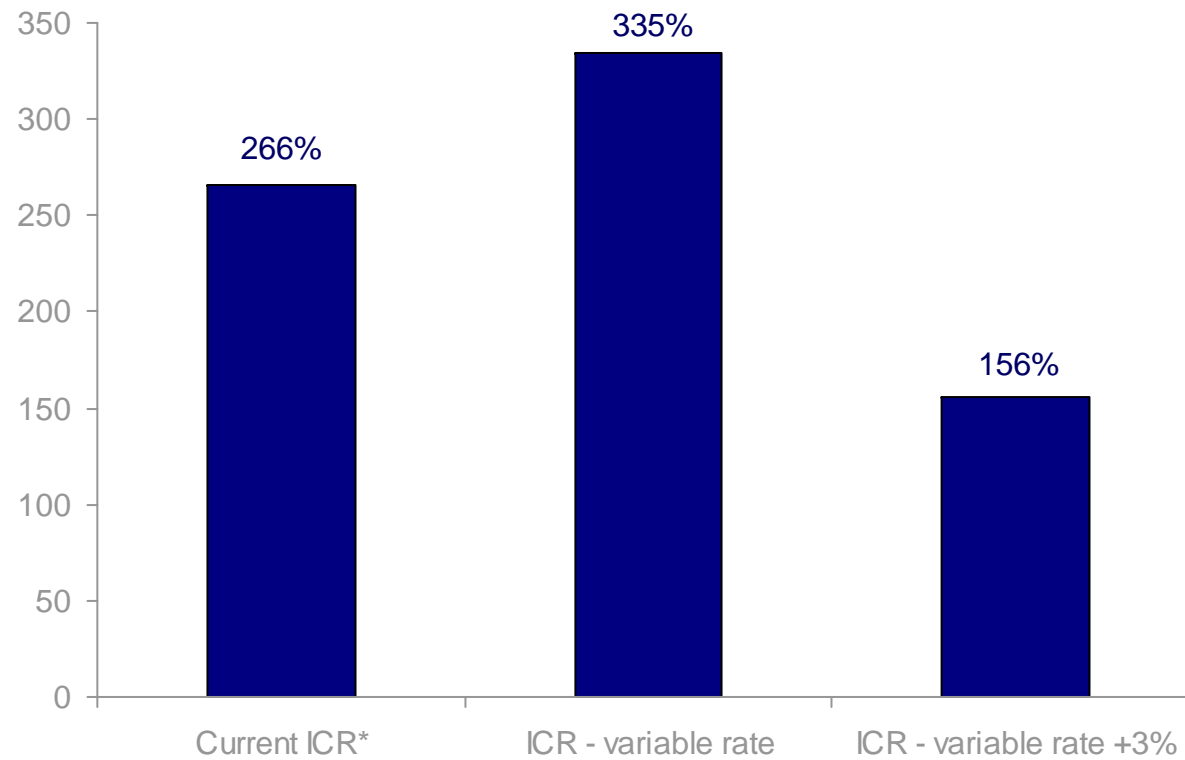
Interest cover ratio (on RoR let properties) = 170%

464 Receiver of Rent cases fully repaired and returned to customer during the year

Receiver of Rent: properties to let



Interest cover ratio on performing buy-to-let properties



* Current ICR includes historic fixed rate loans which will revert to variable over next 12 months

Strategic objectives

Protection of
embedded value by
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portfolio

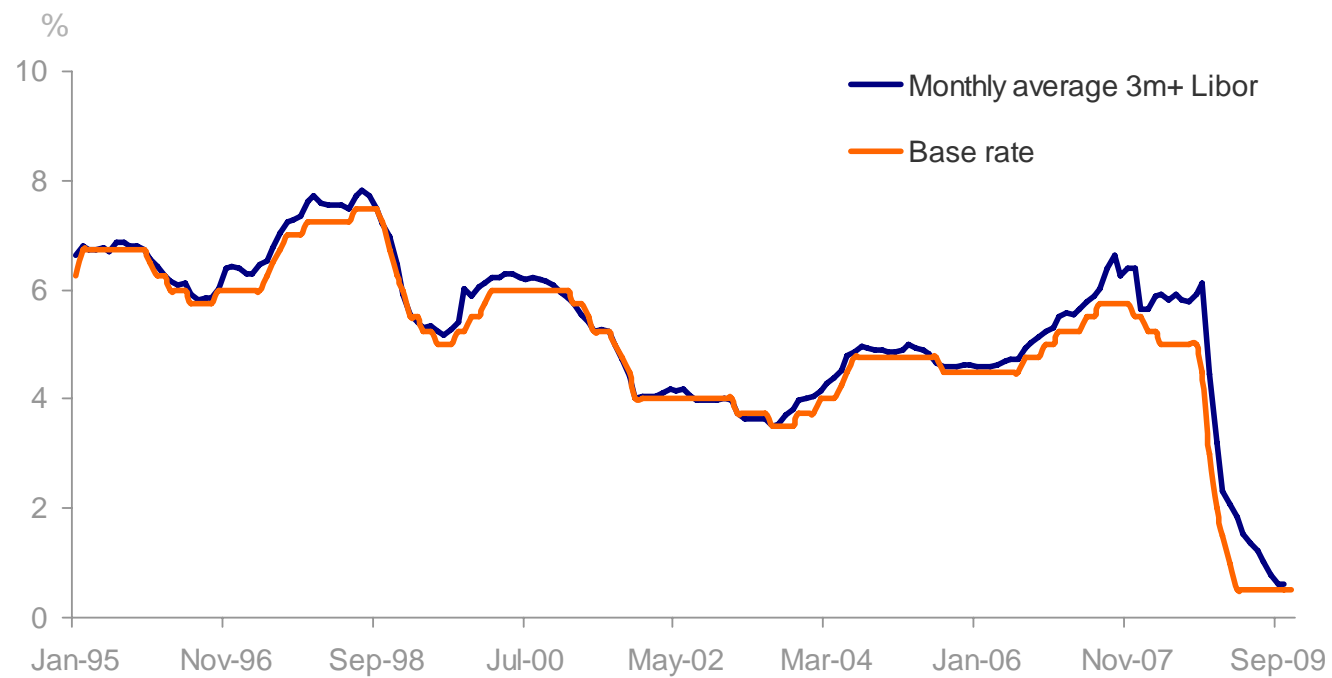
**Business positioned
to enable new
lending in future**

Development of new
sources of income
utilising existing
skills/resources

Funding markets

- Some signs of improvement gradually beginning to emerge

Libor v base rate

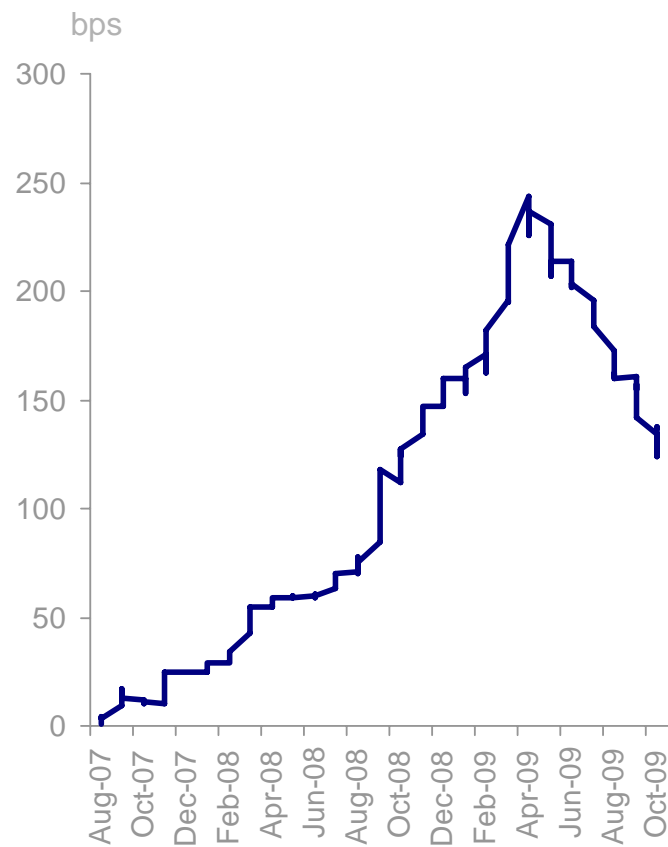


Funding markets

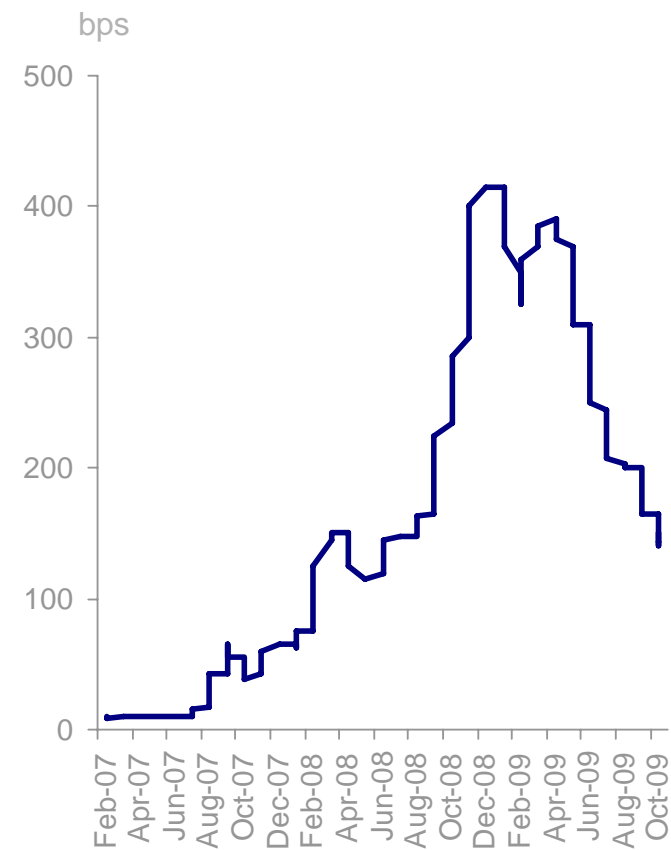
- Some signs of improvement gradually beginning to emerge
 - Lloyds/HBOS £4 billion deal re-opened the RMBS market in late September
 - Nationwide £3.5 billion prime residential deal in October
 - Barclays completed €2 billion covered bond issue in September
 - Abbey completed €1.75 billion covered bond transaction in October
- Funding spreads have improved but remain wider than pre-crunch
- Asset spreads on new lending have widened accordingly

Asset backed bond spreads

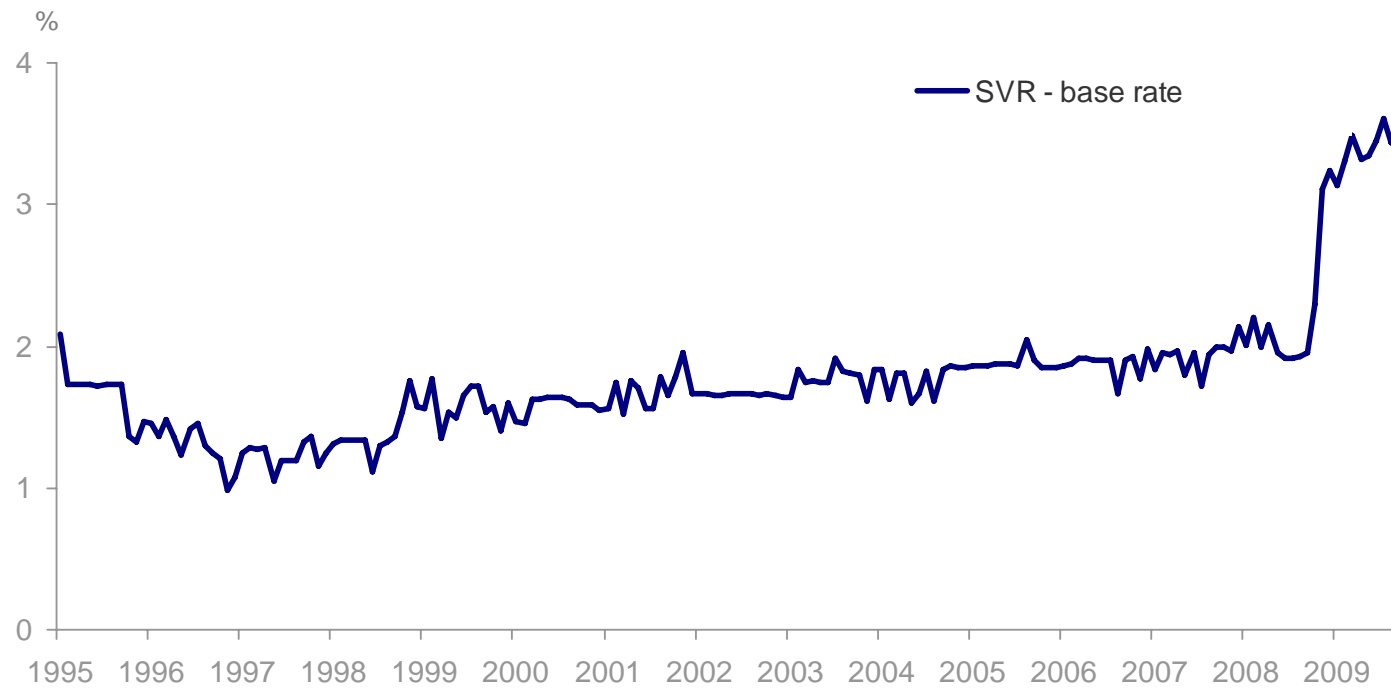
Covered bond spreads



RMBS spreads



Historical margins



Funding – what else is required?

- Continued stability in economic recovery and financial environment
- Further deals expected, but not yet a fully functioning market
- Major banks will be securitising to extend maturities and repay SLS
- Asset backed subordinated bond demand to be redeveloped

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Strategic focus on new sources of income



- Bond repurchase
- Portfolio acquisitions
- Expansion of products and services to existing customers
- 3rd party loan servicing



Bond repurchases



- £37.7 million repurchased to date
- £18.4 million gain
- But market prices have now hardened

Portfolio acquisitions



- Central bank funding has reduced disposals in short-term
- Bank sector will dispose of non-core portfolios over time
- CarVal joint venture in place for larger transactions
- First deal completed August 2009, small second mortgage portfolio

Loan servicing

- Broad range of special servicing provided by Moorgate and Arden Credit Management
- Focus to date on unsecured assets
- Number of servicing contracts in place
- Further contracts in pipeline



**Paragon now manages
268k accounts, 56% on
behalf of 3rd party clients**



Expansion of products/services to existing customers

- Redbrick Tenant Assessment
 - Panel of letting agents created to provide new business
 - Substantial growth expected
 - Cross-selling of insurance products

redbrick
tenant assessment



redbrick
landlords insurance

- Redbrick Landlords Insurance
 - Insurance broking service for portfolio landlords
 - Significant income contribution

Strategic focus on new sources of income



- Good progress made in 2009
- Contribution from completed transactions expected to exceed £3.5 million in 2009/10
- Assessing opportunities for provision of a broader range of property services to private rented sector

The logo for redbrick, featuring the word "redbrick" in a bold, sans-serif font. The word "red" is in red and "brick" is in black.

Section 3

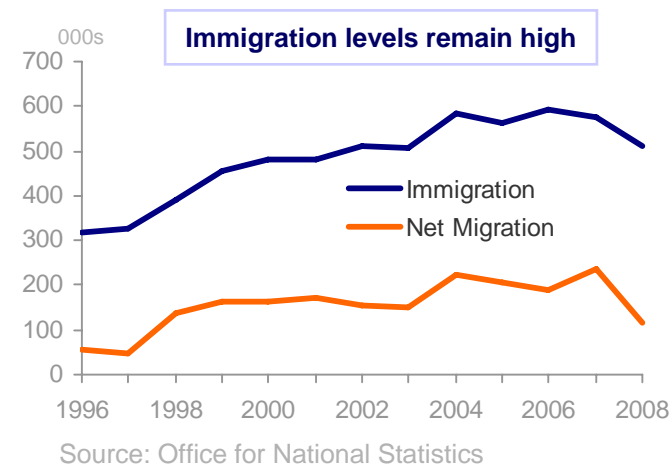
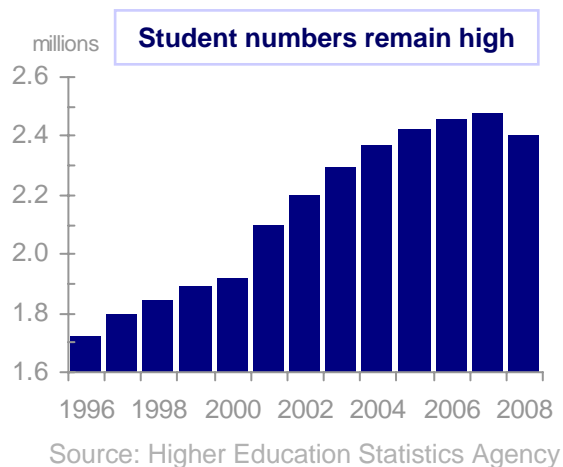
Outlook

Outlook

- Economic recovery under way but likely to be slow
- House purchase activity improving but from low base, remortgage levels likely to remain subdued
- House building increasing although still 70% below target levels
- Affordability strong, interest rates likely to remain low
- Mortgage arrears on an improving trend
- Increasing regulation across financial sector:
 - Lending margins likely to stay wide
 - Buy-to-let, second charge and non-bank lenders; consultation papers expected in due course
 - CRD requiring minimum 5% securitisation retention

Tenant demand

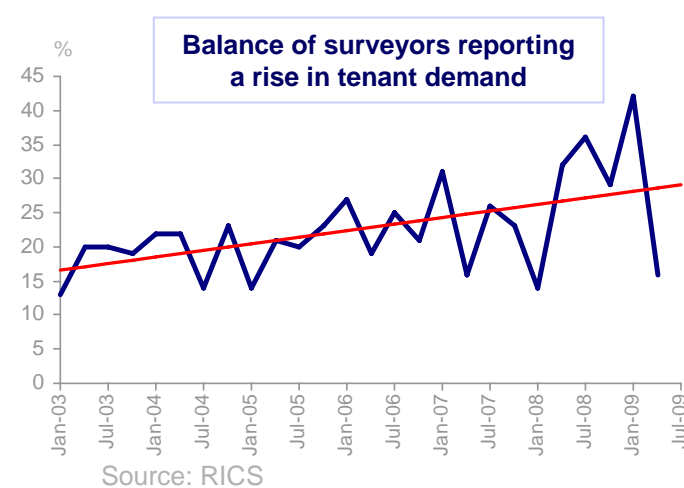
Tenant demand continues to grow, underpinned by demographic trends and economic environment



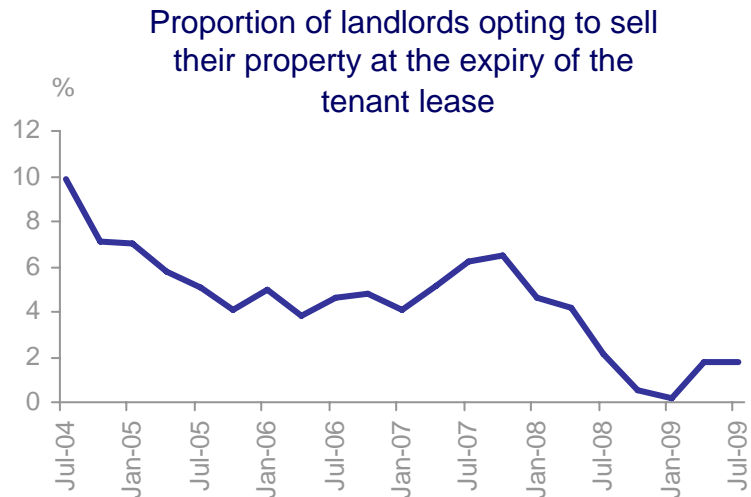
First time buyer deposit requirements continued to increase

	Oct 2008	Oct 2009
Average House Price	£186,044	£162,038
Average LTV	84%	75%
Average Deposit	£29,770	£40,510

Source: Nationwide/Council of Mortgage Lenders



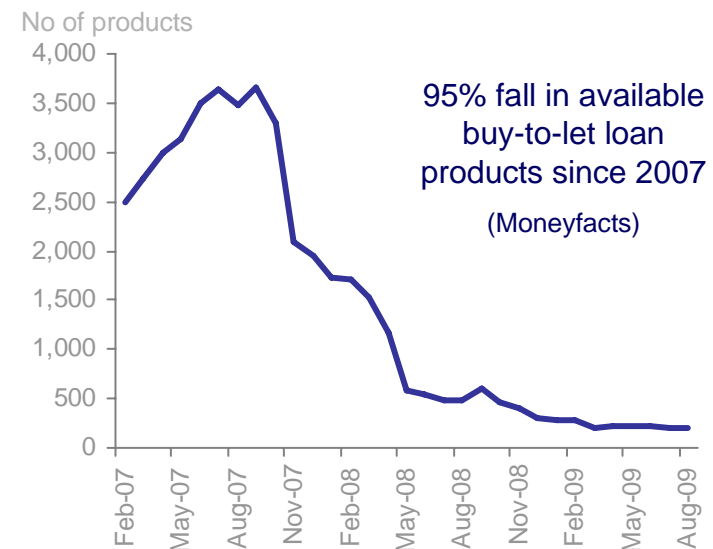
Landlord demand and buy-to-let funding availability



Source: RICS

- Landlords' perception:
 - house prices bottoming out
 - opportunities to buy
- Widening profit margin on landlords' existing portfolios
 - lower interest rates
 - gross yields strong reflecting demand
- "Accidental" landlord slowly ebbing away
- Continued strong demand from tenants
- Funding restraining landlords' ability to exploit opportunities

- Competition limited, funding heavily restricted
- 75% of buy-to-let funding provided by two lenders, but their focus heavily biased towards amateur investors



Conclusions

- Successful year in a challenging environment
- Group well capitalised – loan portfolios match funded to maturity
- Loan credit quality strong
- Core business areas remain profitable and cash generative, supplemented by new initiatives and bond repurchase programme
- Environment is presenting new opportunities - well placed to exploit
- Factors underpinning the private rented sector remain strong
- Preparing for return to new lending when conditions are right

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