

paragon



Full-year results

12 months ended 30 September 2011

The Paragon Group of Companies PLC

Agenda

Section 1

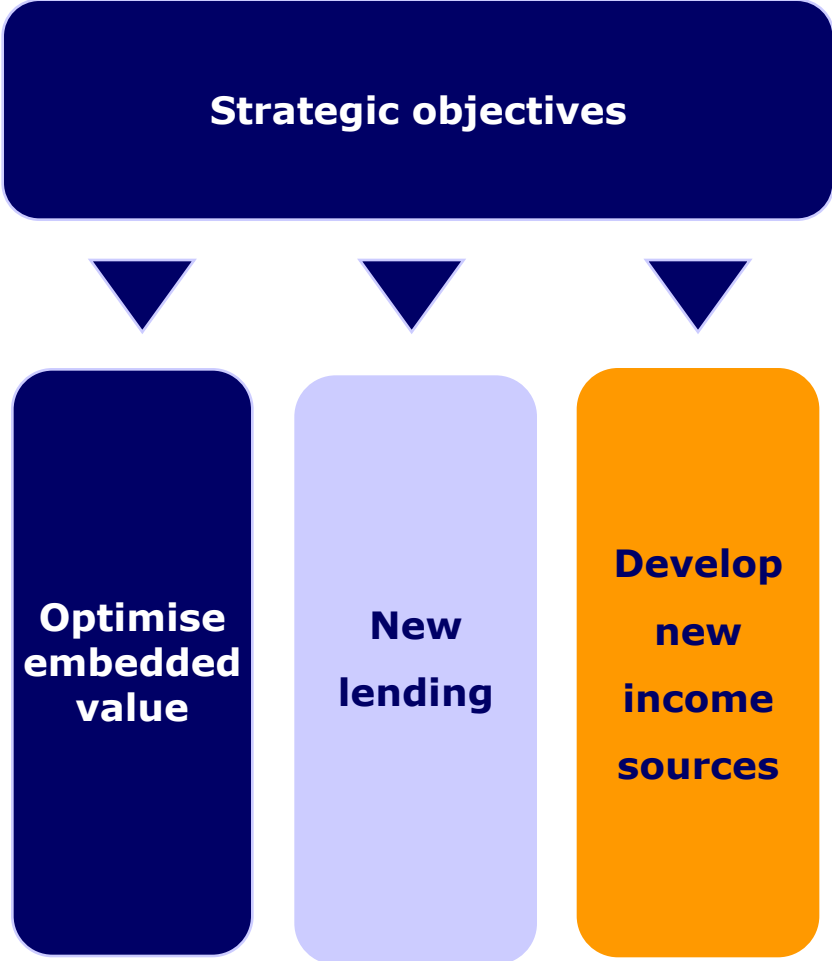
Financial results

Section 2

Strategy

Highlights

- Strong financial performance with considerable progress on strategic developments
 - Profits up 22.7%
 - Strong credit performance
 - Strong customer retention
 - New investments in portfolios
 - New servicing contracts
 - New lending re-established
 - First securitisation since 2007
- Well positioned for further growth, despite environment uncertainties





Financial results

12 months to 30 September 2011

Financial highlights

	2010 £m	2011 £m	% change
Pre-tax profit	71.8	80.8	12.5%
Of which:			
Exceptionals	5.7	0.0	
Fair value	0.0	(0.3)	
Underlying profit	66.1	81.1	22.7%
Tax rate	24.9%	26.2%	
Dividend per share (total)	3.6p	4.0p	11.1%
Earnings per share	18.3p	20.2p	10.4%
Shareholder funds @ 30 September	692.0	742.0	7.2%

FY:FY analysis

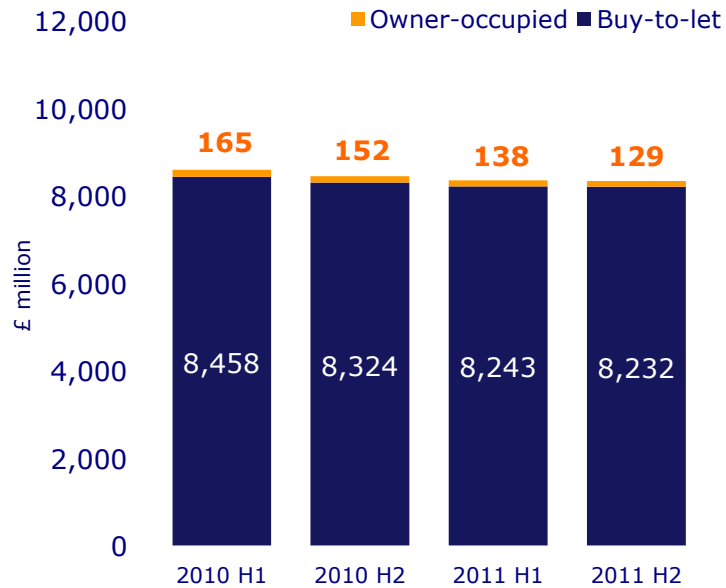
	2010 £m	2011 £m	% change
Income	147.9	150.9	2.0%
Expenses	(42.6)	(45.4)	6.6%
Impairments	(39.2)	(24.4)	(37.8%)
Cost:income	28.8%	30.1%	
Underlying profit	66.1	81.1	22.7%

Half-year progression

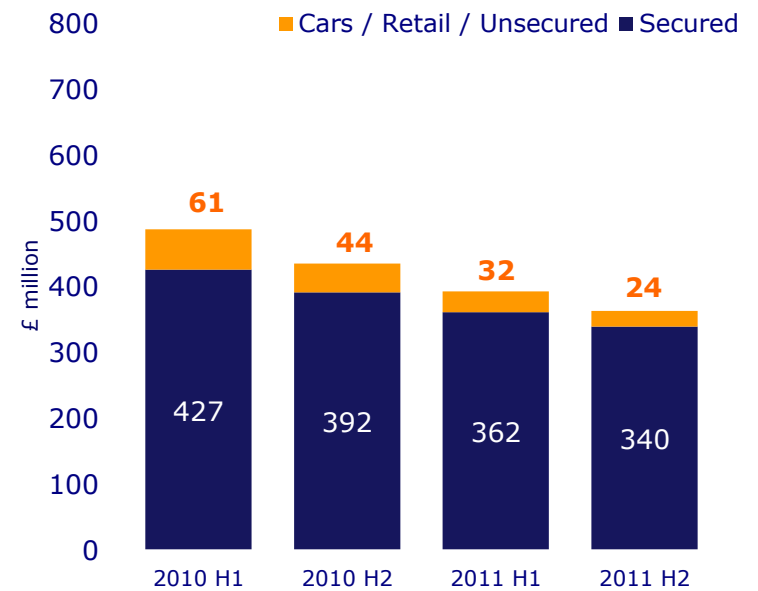
	H1 2010 £m	H2 2010 £m	H1 2011 £m	H2 2011 £m	2010:H2 – 2011:H2 % change
Income	77.4	70.5	74.5	76.4	8.4%
Expenses	(21.0)	(21.6)	(22.8)	(22.6)	4.6%
Impairments	(26.7)	(12.5)	(13.3)	(11.1)	(11.2%)
Cost:income	27.1%	30.6%	30.6%	29.6%	
Underlying profit	29.7	36.4	38.4	42.7	17.3%

Segmental loan assets

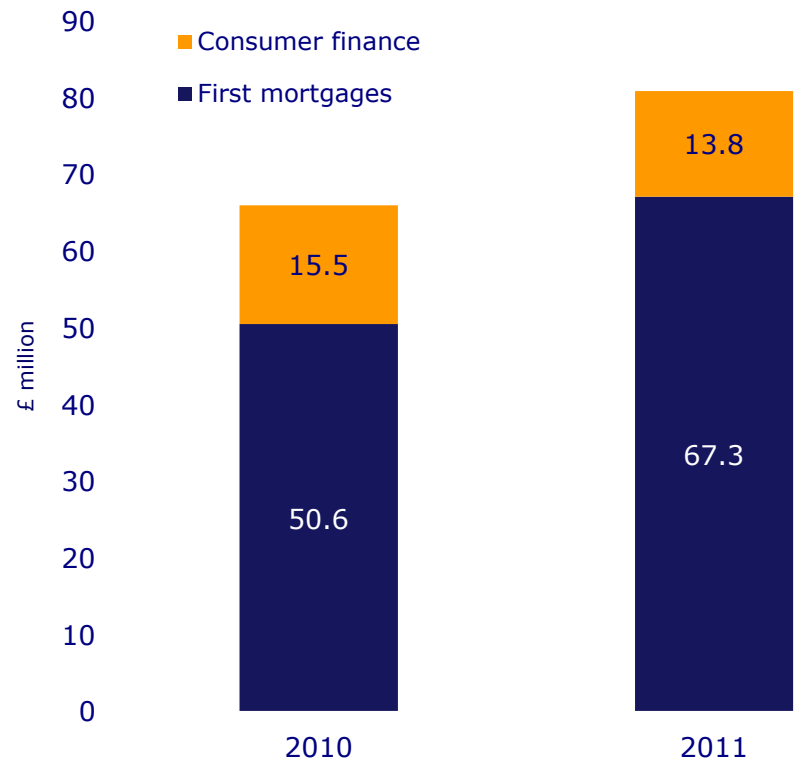
First mortgages



Consumer finance



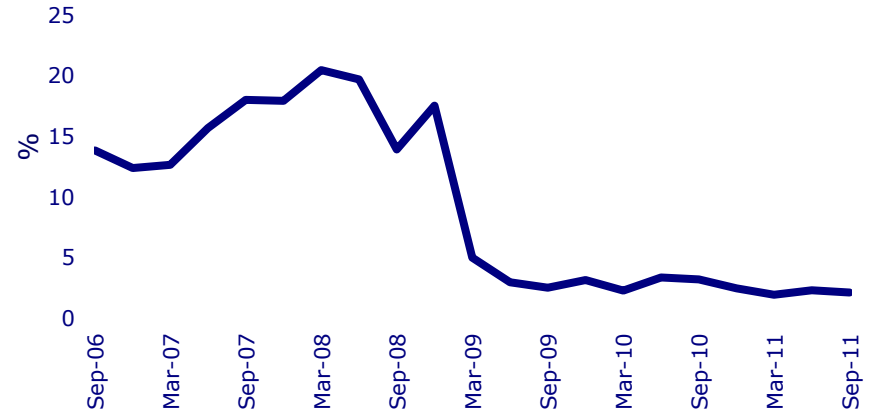
Segmental profit analysis



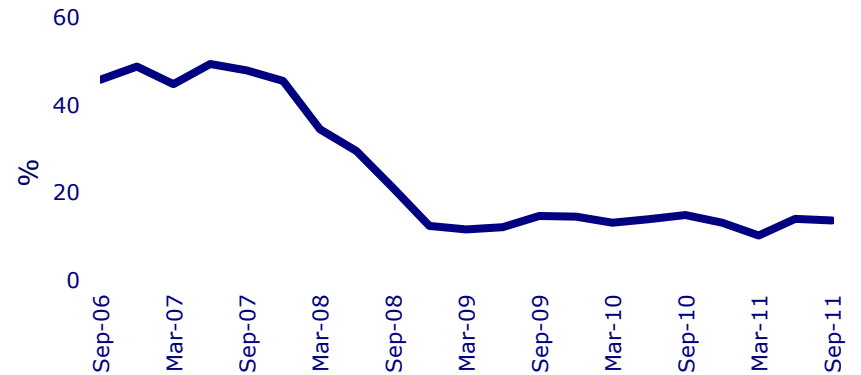
Customer retention

- Redemption rates remain low and stable
- Strong tenant demand
- Rents continue to rise
- Landlords retain long-term investment horizon
- Product availability remains restricted

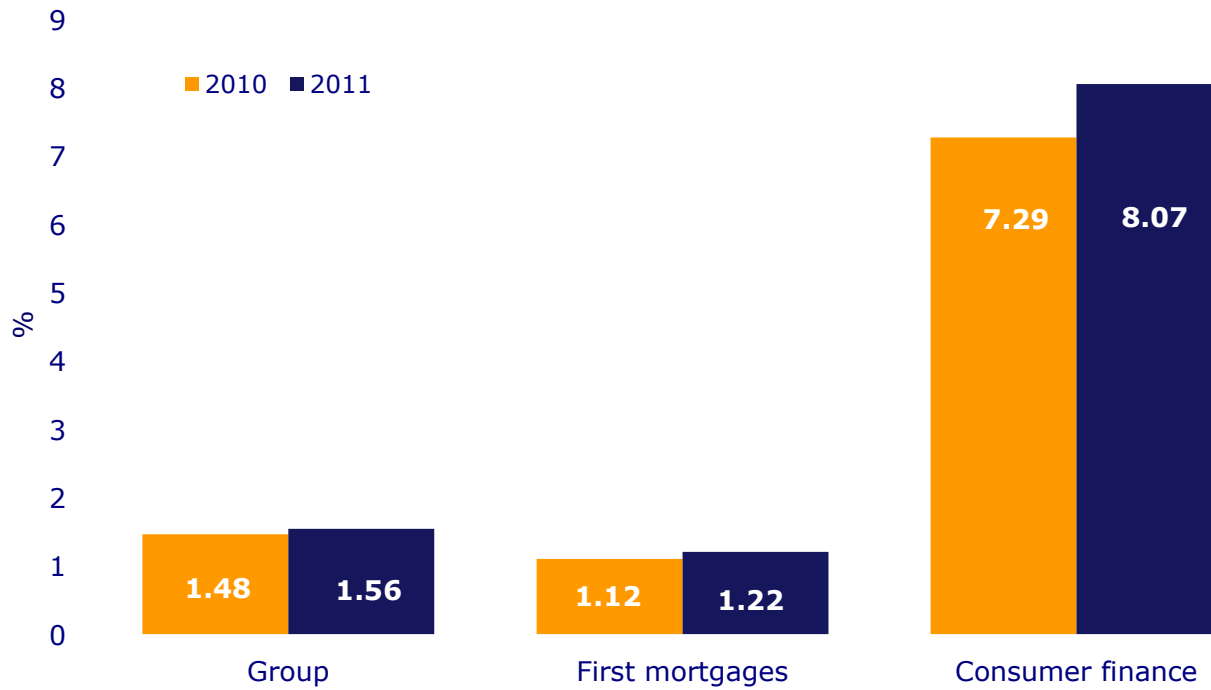
Paragon buy-to-let redemption rate



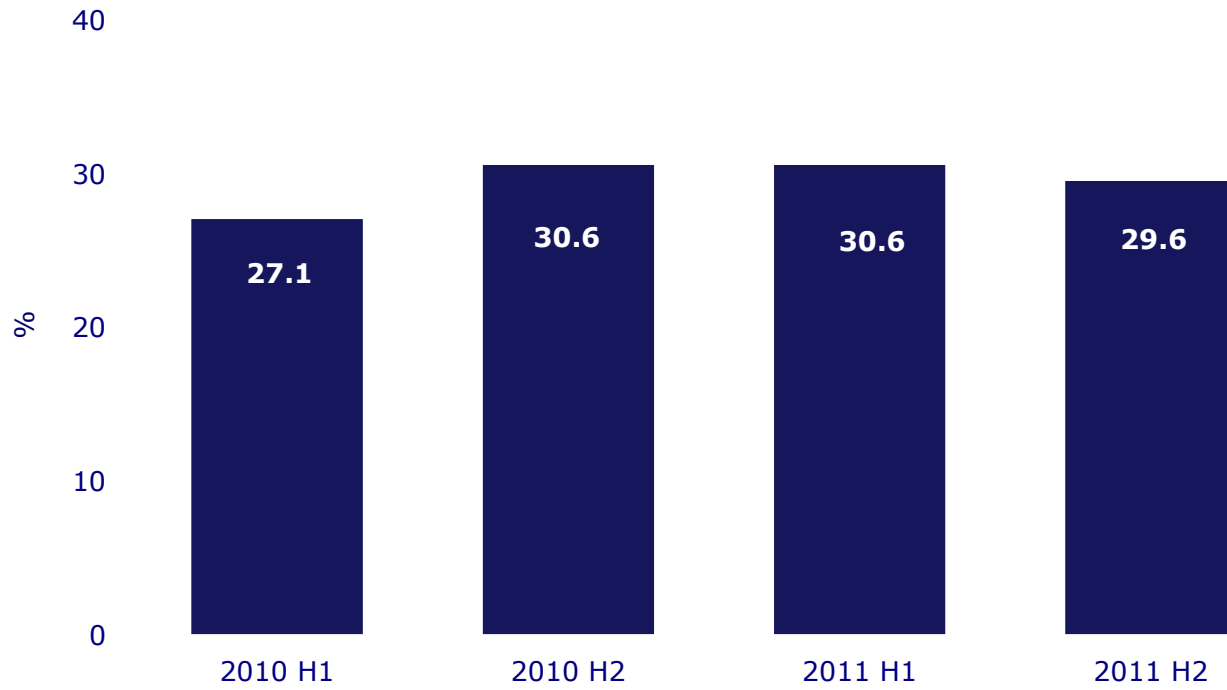
Paragon secured redemption rate



Net interest margin

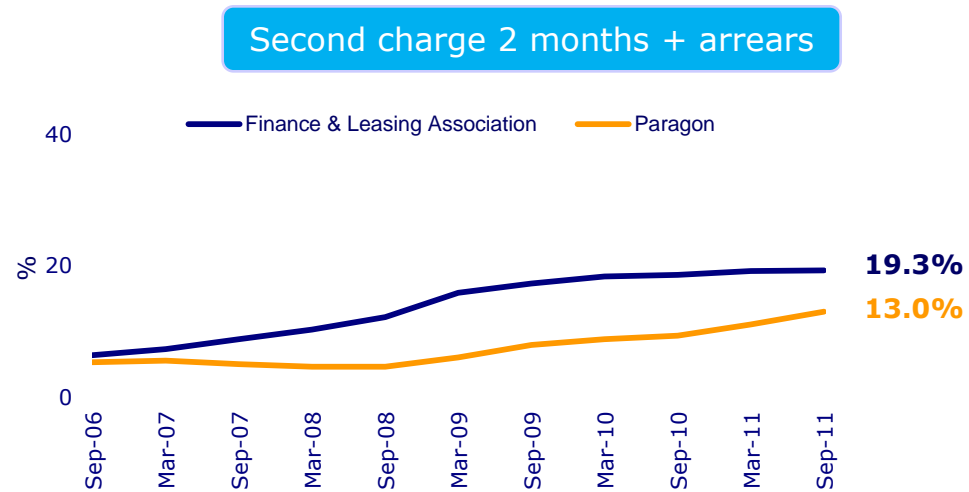
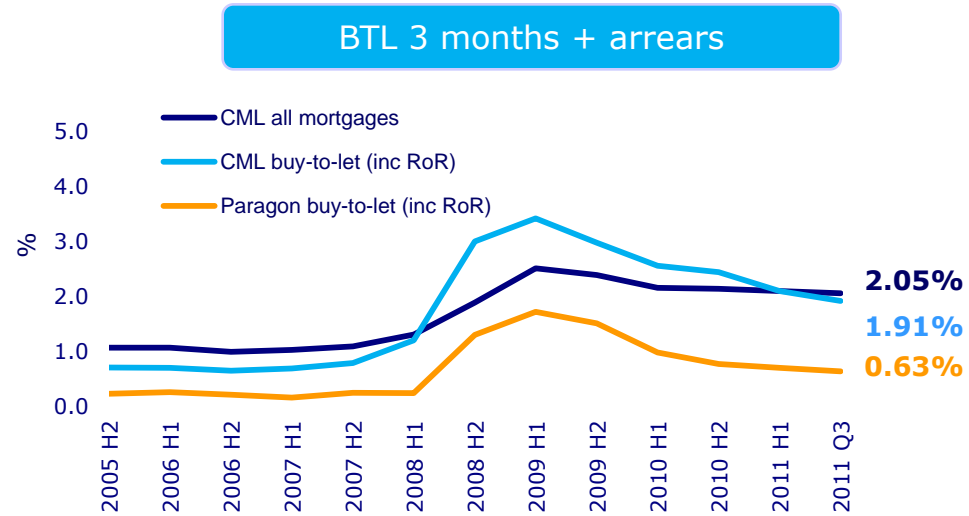


Cost:income ratio



Credit quality

- Paragon assets significantly outperform wider industry
 - Buy-to-let 3 months + arrears fell to 63 bps
- Second charge arrears cash collections remain strong
 - 76% average RvD on 2 months + arrears accounts



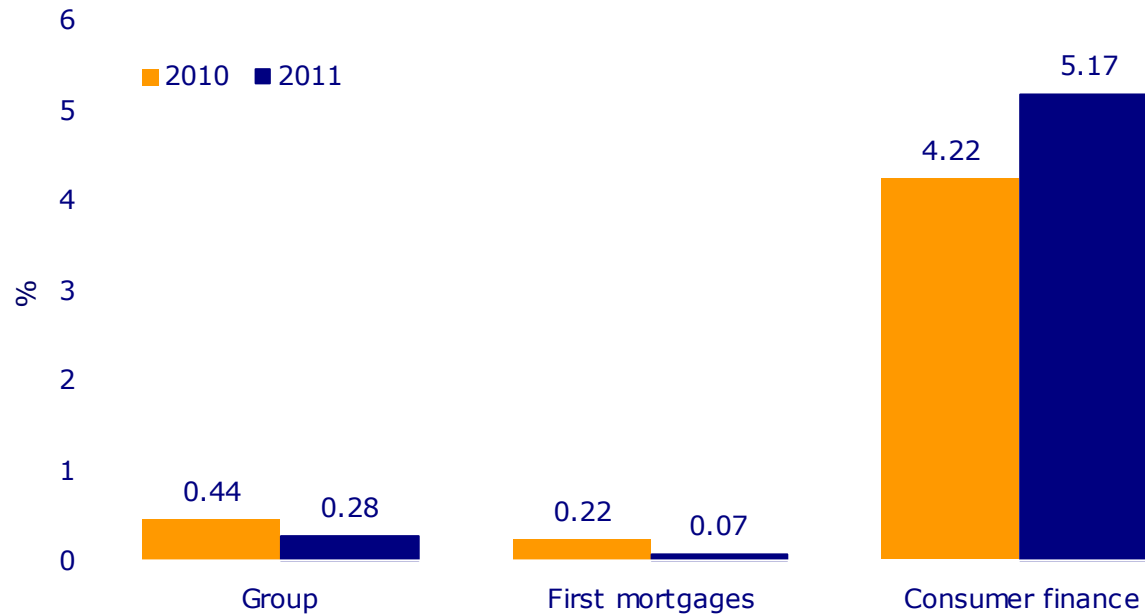
Receiver of Rent (RoR)

- 86% of buy-to-let 3 months + arrears subject to RoR
- RoR is most effective arrears management strategy
 - for lender, landlord and tenant
- 1,483 properties in RoR - 94% of available RoR properties are let
- Majority of buy-to-let provision charge, current and historic, relates to RoR properties

Paragon's RoR process

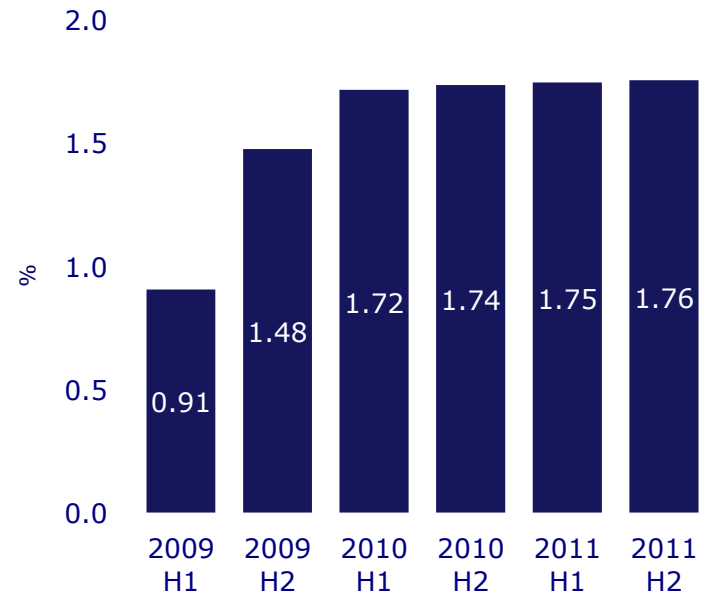
- Aim is to return loan to performing status, whilst recognising landlord's financial difficulties
- Paragon takes control of the rents
- Rental income is paid by tenant direct to Paragon
- Properties may be returned to landlord, if financial difficulties resolved, or sold
- Of all cases ever in RoR
 - approx 64% resolved (of which half sold and half returned to landlord)
 - 36% remain in ROR
- Case-by-case decision-making

Impairment charge as % of total loan assets



Cash margins

- Cash flow remains strong
- Free cash balances £195 million





Strategy

Strategy

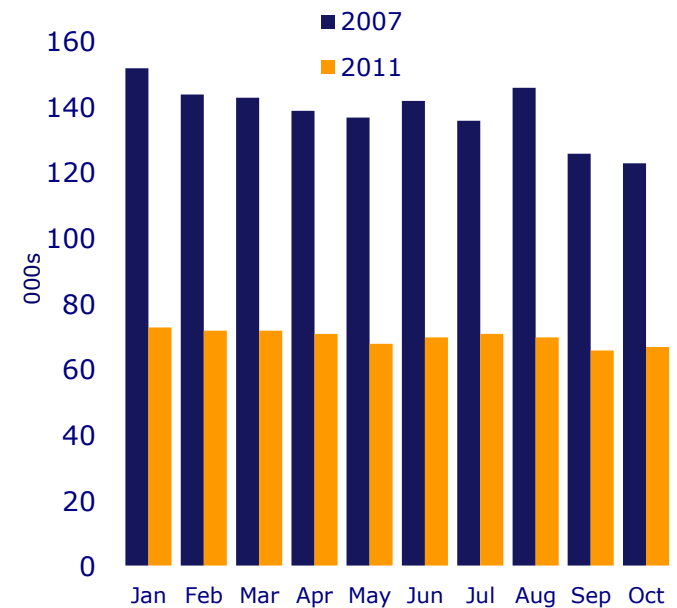


Loan origination

UK housing market

- Market characterised by low level of transactions:
 - Average 70,000 transactions per month during 2011 to date (2007 average: 135,000 per month)
- House prices remain broadly flat
- Housing market in equilibrium, just at a lower level
- New Government initiatives

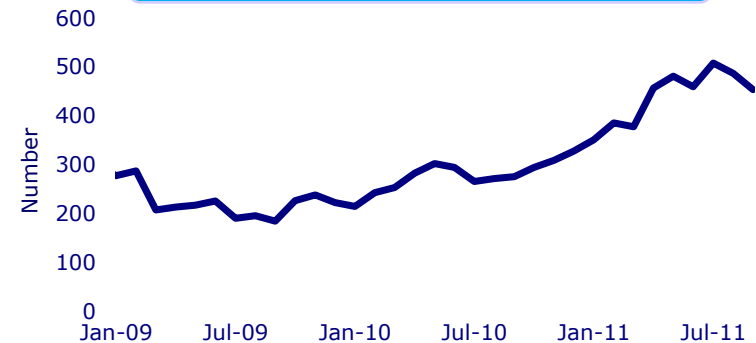
Monthly number of housing transactions



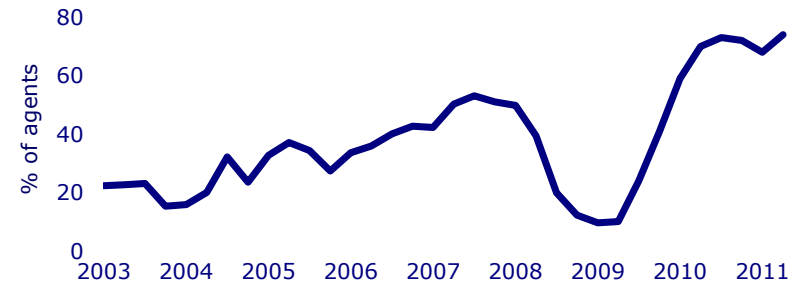
Buy-to-let market

- Conditions improving
 - More products available, but focussed on smaller scale landlords
 - 88% below 2007 peak
- Strong rental demand
 - 74% of ARLA agents reported more tenants than properties in Q3 2011
 - Savills forecasting rental growth of 21% for next 5 years
- Buy-to-let gross lending
 - 9 months to 30/9/11 up 41% to £9.7 billion
 - 71% below 2007 peak

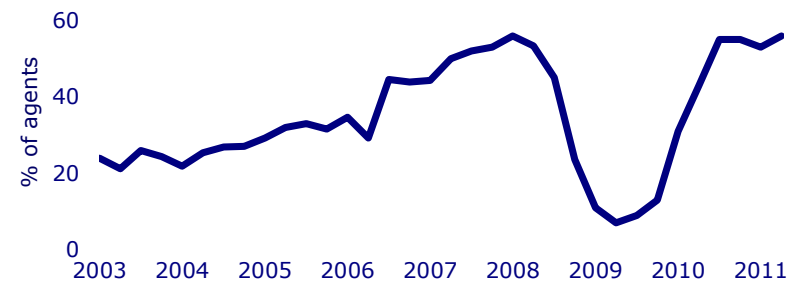
Number of available BTL products



More tenants than properties



Increase in rent levels



Regulation: update

- Regulatory environment continues to develop
- Buy-to-let
 - EU Directive relating to residential property still in drafting/negotiation stage
 - “Consumer” buy-to-let may be included
- Mortgage Market Review
 - New consultation announcement imminent
 - Second charge mortgages to be regulated by FSA – however, significant delays expected
 - Non-bank lenders to be regulated - no retrospection
- Paragon is already FSA authorised for mortgages and insurance - well placed to be fully compliant with likely regulatory framework

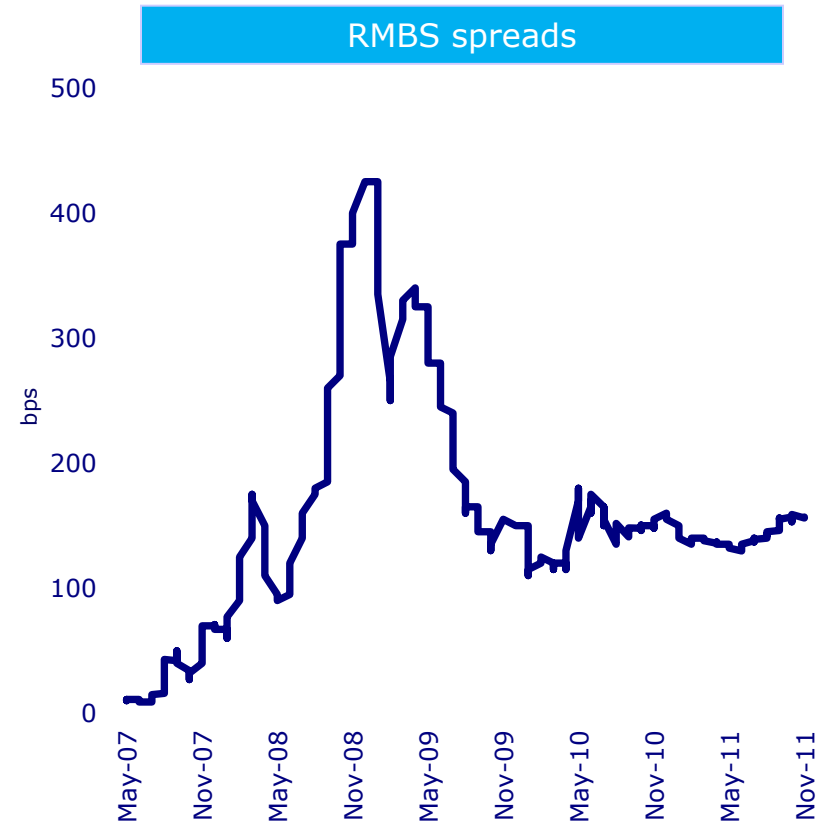
2011 new lending

- Paragon's return to buy-to-let market well received
- Focus in 2011 on re-establishing distribution
- High quality new originations
 - Average LTV 69.2%
 - Average ICR 155.0%

Buy-to-let	At 30-09-11
Advances	£127.0m
Further advances	£5.8m
	£132.8m
Pipeline	£67.5m
Redemptions	£181.2m

Funding

- £200 million warehouse facility with Macquarie
- PM16 securitisation:
 - High levels of investor demand
 - £163.8 million, upsized and provided pre-funding
 - Class A senior notes (AAA)- £131.7 million
 - 275bps over 3 month LIBOR
 - Junior notes retained
 - Strong capital and liquidity position
- Debt markets generally impacted by Eurozone crisis
 - RMBS performance robust
 - General price volatility may push up mortgage spreads
- Additional warehouse capacity in due course



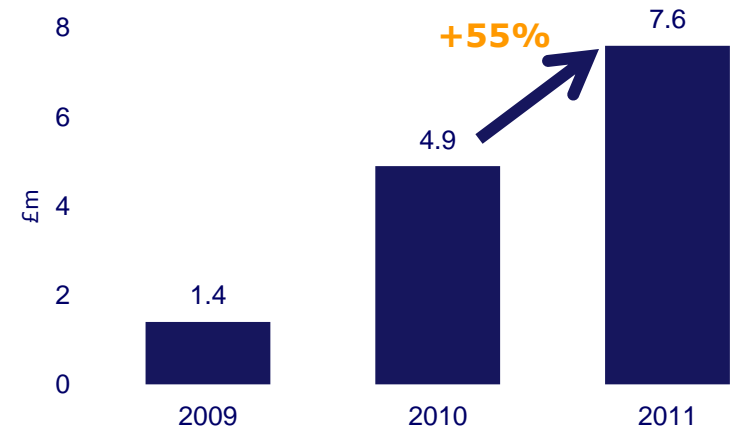
Portfolio acquisitions



Portfolio opportunities

- Opportunities include:
 - Portfolio acquisitions
 - Loan servicing
 - Servicing opportunities arise from portfolio sales
- Contributed £7.6 million in 2011 (2010: £4.9 million)
- 200,000 accounts under management
 - 69% consumer assets
Long-term sector experience
 - 59% are serviced on behalf of third parties
- Idem making significant and increasing contribution to Group profits

Loan servicing and portfolio acquisitions operating profit



Idem Capital - investments

- Total investment to date
 - Six portfolios, total investment £89.5 million
 - £77.5 million direct investment
 - £12 million co-investments
 - First mortgage, second mortgage and unsecured asset classes
 - Portfolios performing well

- Portfolio investments during 2011
 - Two unsecured loan portfolios acquired in partnership with 3rd party investment companies
 - Servicing contracts with promote structure
 - Direct investment to acquire a portfolio of second mortgages
 - Investment in RBS unsecured loan portfolio announced in October

- Accounting
 - Fair value accounted under IFRS
 - Tested at each reporting date
 - EIR applied through interest income
 - Acquired assets included in loans on balance sheet, JVs held as investments

- Structure
 - Non-recourse SPVs, including JVs
 - Any leverage located within SPV

Idem Capital - investment process

- Idem deals structured in two main ways:
 - **Principal:** Idem bids in its own right, raising debt to support the deal as required
 - **Co-investor:** Larger funds / banks acquire portfolios and appoint Idem (or Moorgate) as servicer, with Idem taking a minority equity position
- Proven specialist servicing capabilities with 'skin-in-the-game'

Idem Capital – deal process

Diligence

- Financial
- Credit
- Operational
- Legal
- Property
- Historic servicing

All supported by highly experienced teams

Pricing

- Stress testing applied
- Historic operational practices affect value / provide opportunities

Migration

- Expert operational teams in place
- Highly flexible and scalable technology
- First class track record

Market opportunities

- Bank de-leveraging being driven by:
 - EU bail out requirements
 - Basel III
 - Revised stress tests, SIFIs, Vickers
 - On-going banking funding pressures

- European banking market de-leveraging (asset sale forecasts)
 - PriceWaterhouseCoopers - €1.3 trillion (40% UK) - €800 billion non-performing
 - Morgan Stanley - €2 trillion
 - Royal Bank of Scotland - €2 trillion

- Staged process
 - Phase 1
 - Par value assets
 - Short-term receivables
 - Regulatory-driven actions eg EU bailout requirements
 - Written down assets
 - High RWA

 - Phase 2
 - Long duration assets
 - Low/sub market yields, but high quality assets
 - Low RWA
 - Mortgages more likely to be in Phase 2

Conclusion

- 2011 strong financial and operational performance
- Excellent progress on strategy
- Environment likely to remain challenging
 - High quality lending re-established
 - Increasing opportunities from bank deleveraging
- Well positioned to meet these opportunities



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