The Paragon Group of Companies PLC

Full-year results

12 months ended 30 September 2012

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Agenda

Section 1	Financial results
Section 2	Strategy update
Section 3	Appendix

Highlights - 12 months to 30 September 2012

- Financial performance
  - Record profits - underlying profit increased by 16.2% to £94.2 million
  - Operational free cash generation over £100 million
  - New dividend policy – full-year dividend at 6.0p per share, increased by 50%

- Strategic development
  - Idem established as a leading UK debt purchaser and loan servicer
    - £115.4 million investment in the year
  - Buy-to-let origination franchise firmly re-established
  - Funding materially enhanced
    - Warehouse capacity more than doubled
    - Material structure and pricing improvements on securitisation

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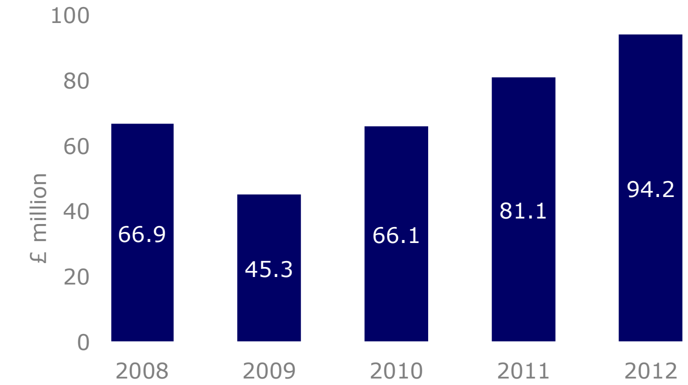
Financial results

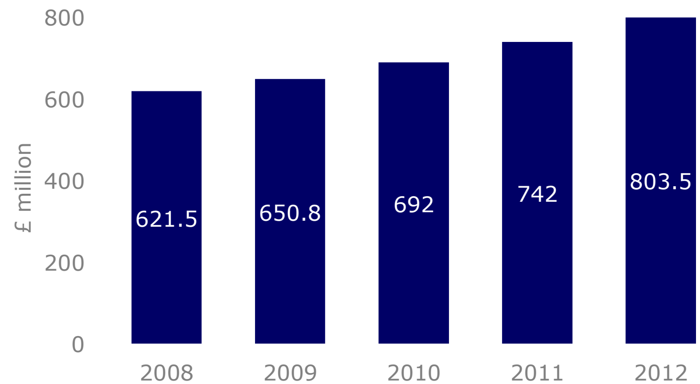
Financial highlights

	2011 £m	2012 £m	% change
Pre-tax profit	80.8	**95.5**	18.2%
Less:			
Fair value	(0.3)	**1.3**	
Underlying profit	81.1	**94.2**	16.2%
Tax rate	26.2%	**24.4%**	
Dividend per share (total)	4.0p	**6.0p**	50%
Earnings per share	20.2p	**24.2p**	19.8%
Shareholder funds @ 30 September	742.0	**803.5**	8.3%

Underlying profit



Shareholders' funds



FY : FY analysis

	2011 £m	2012 £m	% change
Income	150.9	170.2	12.8%
Operating expenses	(45.4)	(51.9)	14.3%
Impairments	(24.4)	(24.1)	(1.2)%
Cost:income	30.1%	30.5%	
Underlying profit	**81.1**	**94.2**	16.2%

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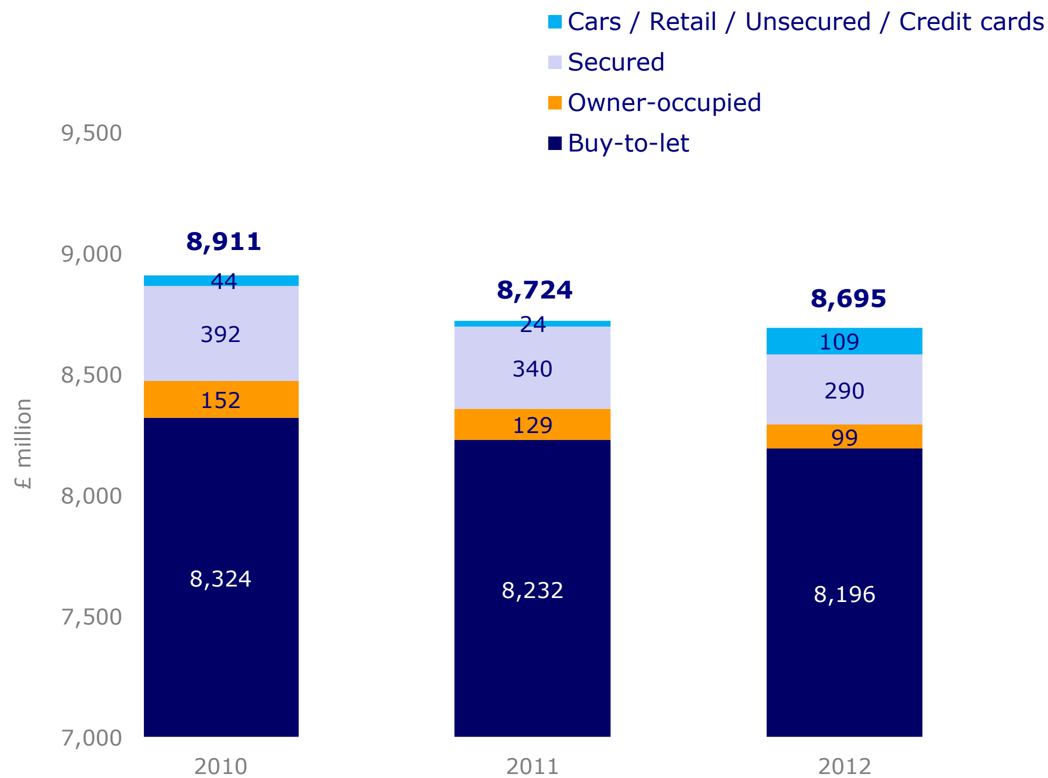
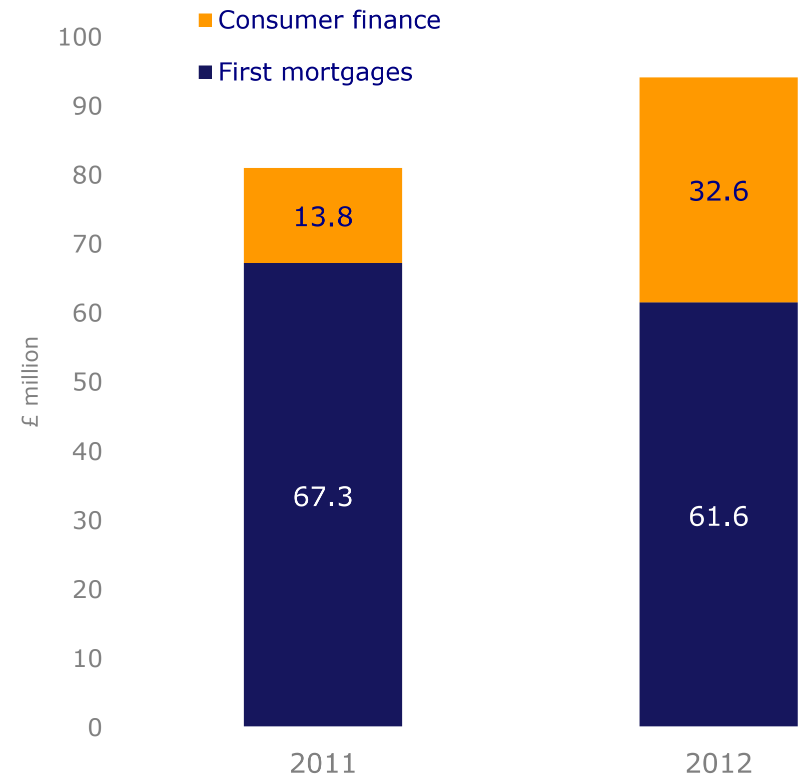
Segmental loan assets



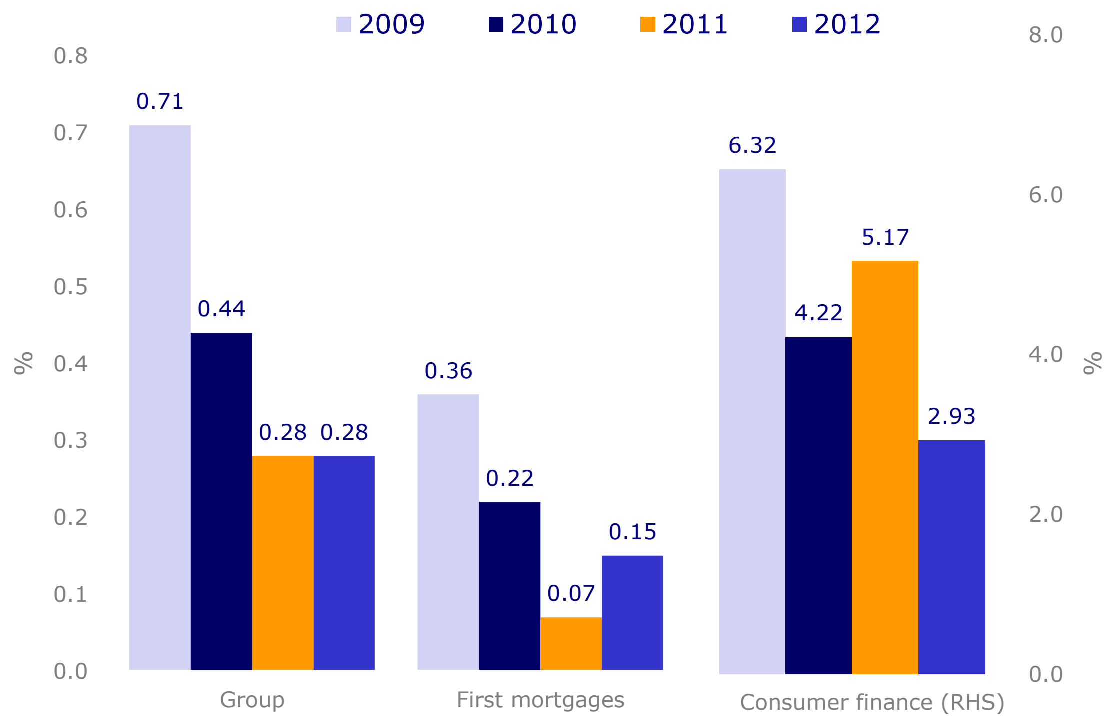
Segmental profit analysis

- Consumer finance segment boosted by Idem investments
- 2011 first mortgage profits benefitted from one-off credits to impairments
- Overall, 2012 impairments similar to 2011



Impairment charge as % of total loan assets

2012 sees a return to normal provisioning levels in first mortgages after exceptionally low levels in 2011



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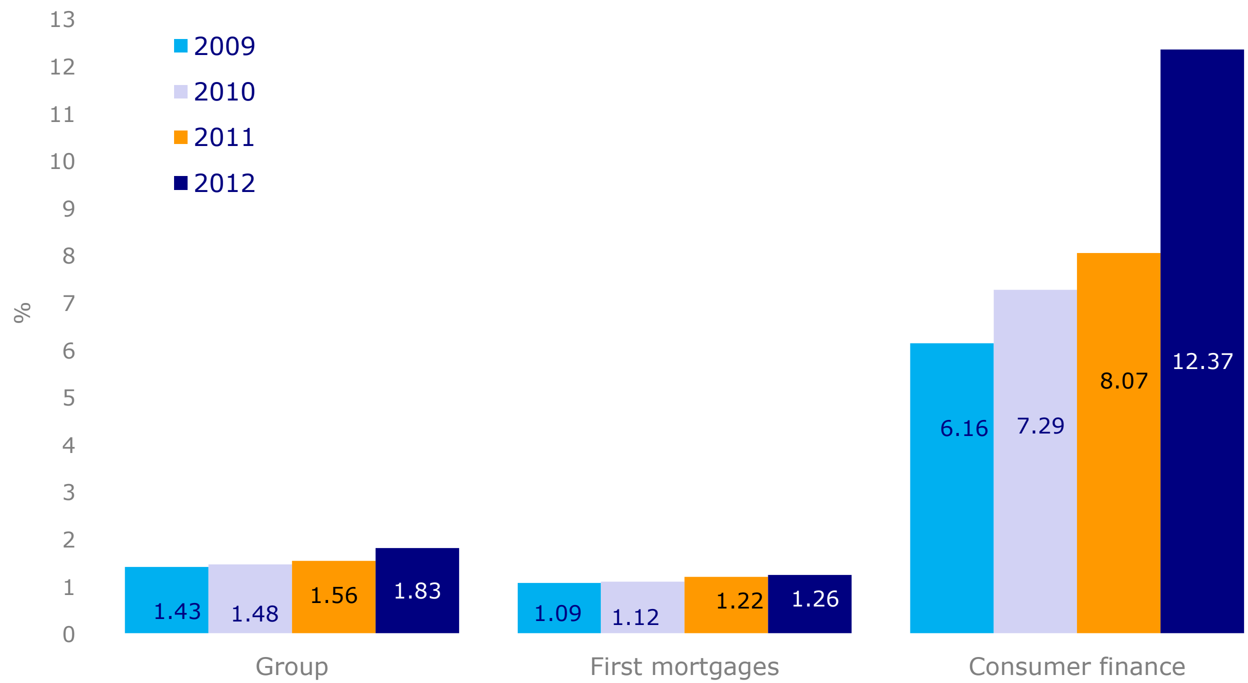
Net interest margin

Net interest margin progression in both divisions of the Group



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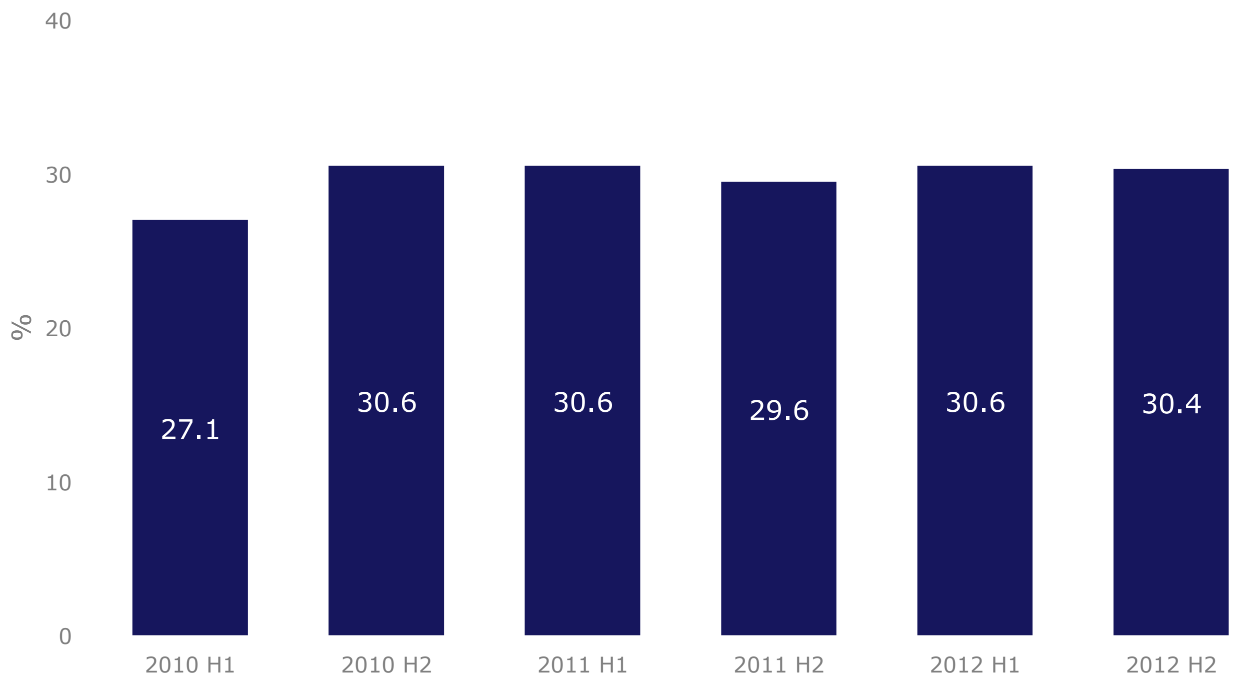
Cost:income ratio

Cost:income ratio remains significantly below industry averages



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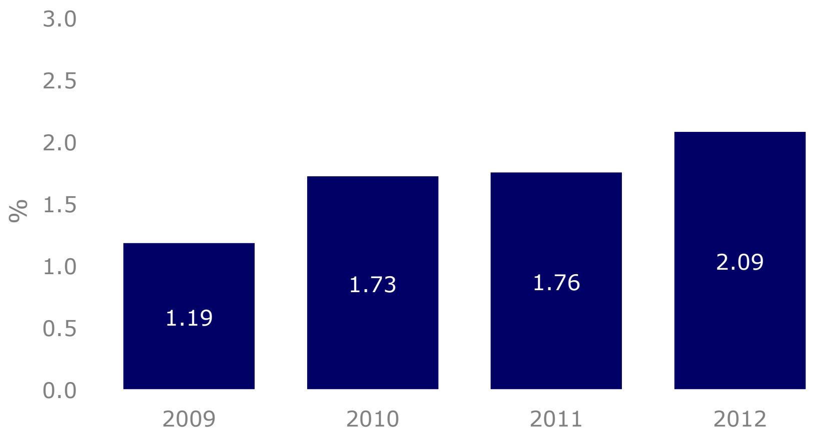
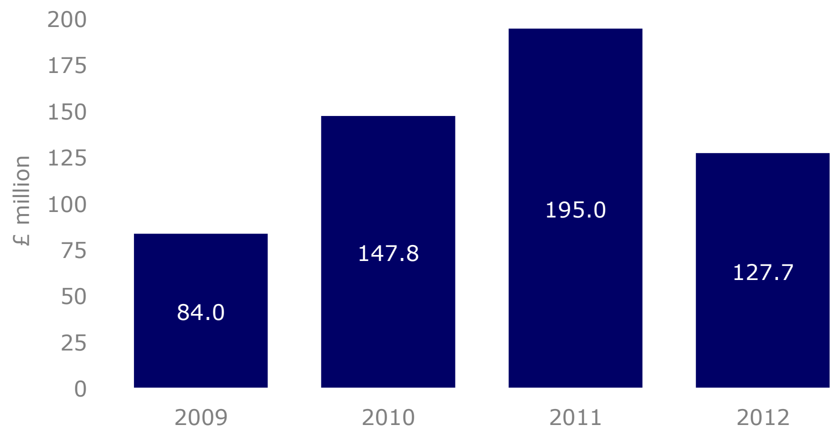
Cash margins

Strong cash generation, significant investment in asset purchases and development of buy-to-let

Cash margin

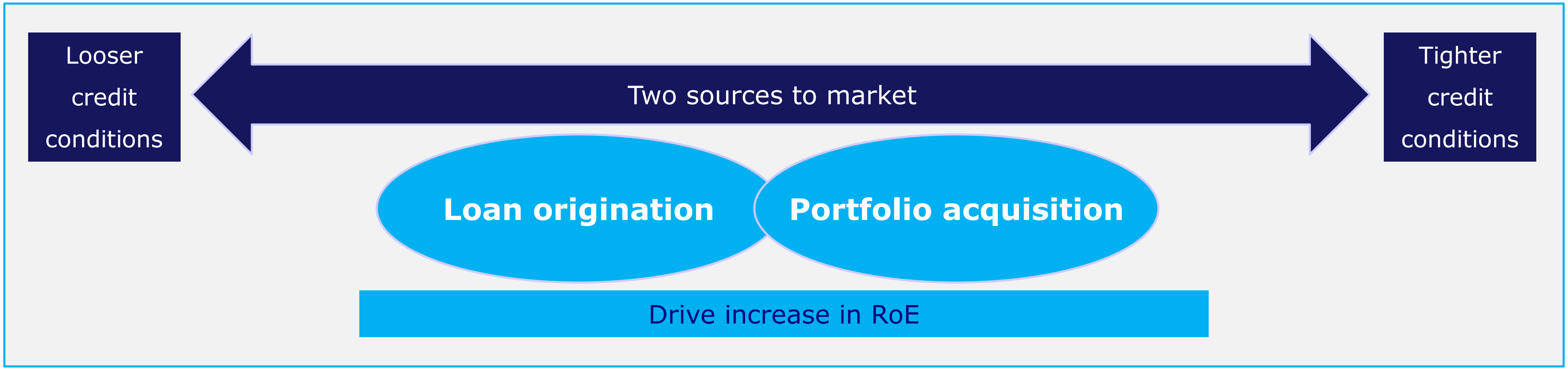


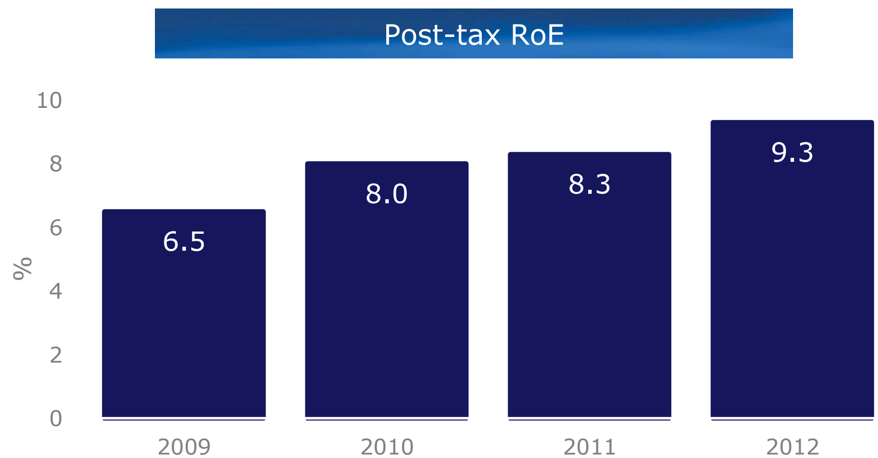
Free cash balances



Strategy update

Strategy





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Capital and cash management

Sources

- Legacy portfolios generating strong cash flow
  - Stable margins
  - Low redemptions
  - Good credit quality
- Idem extant portfolios generating strong cash flow
  - Unleveraged

Both generating more cash than earnings

Over £100 million in 2012

Uses

- PM17 proves capital efficiency model
  - 5.25% requirement
- PM16 callable in two years (c£30 million potentially releasable)
- Future Idem deals likely to come with leverage

Cash employed with 15% IRR targets

Cash not employed depresses RoE

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Dividend policy

- Current progressive dividend policy in place since 2008
- Since policy established, Group has:
    - Recommenced buy-to-let mortgage lending
    - Accessed warehouse funding
    - Re-established securitisation programme
    - Established a strong debt purchase franchise
- Total dividend for 2012 is 6.0p per share, a 50% increase on 2011
- Objective going forward for progressive dividend targeting dividend cover in range of 3.0 to 3.5 times by 2016 and thereafter
- Capital/cash capacity sufficient to support strong growth objectives

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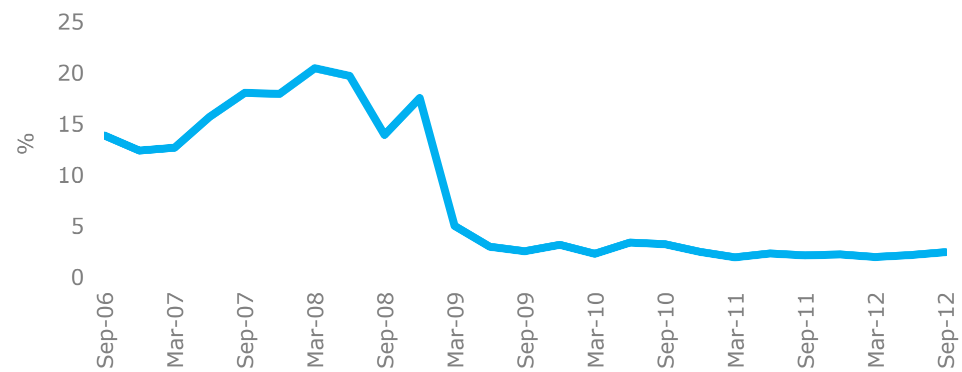
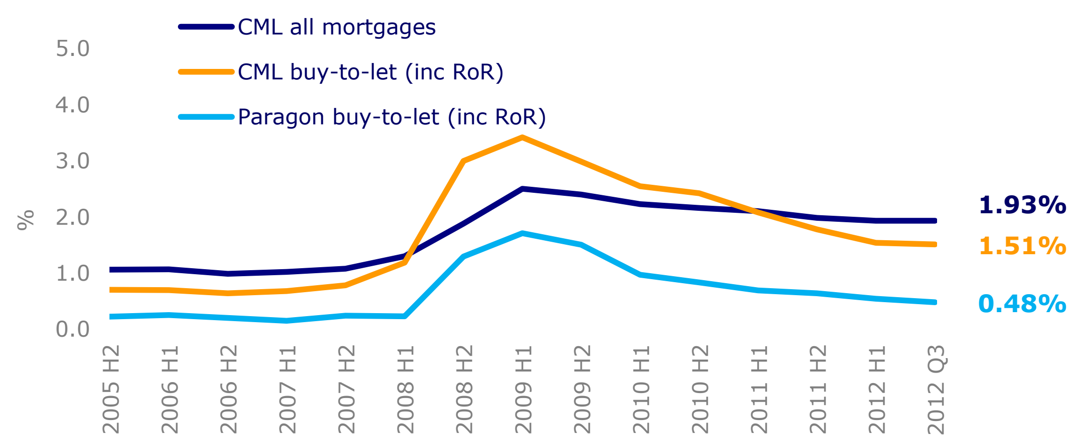
Back book performance

- Buy-to-let redemptions stable at 2.2% per annum
- Paragon assets significantly outperform wider industry
  - Buy-to-let 3 months+ arrears fell to 48bp (2011: 63bp)
  - 90% of 3 months+ arrears subject to Receiver of Rent
  - 1,504 properties in RoR (2011: 1,483)
  - 94% of available RoR properties are let
- Consumer books performing well, in line with expectations
- Strong operational cash flow from SPVs

Buy-to-let redemptions



Buy-to-let 3 months+ arrears



Source: Council of Mortgage Lenders / Paragon

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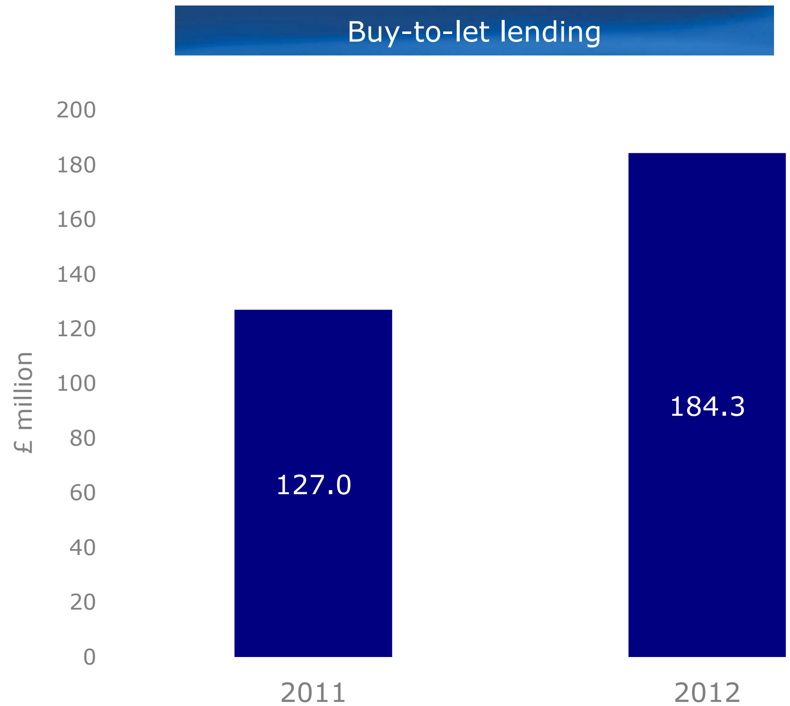
New lending

- New lending increased by 45%
- £311.3 million of buy-to-let completions since return to new lending
- Pipeline remains strong - £129.9 million at 30 September 2012 (£67.5 million at 30 September 2011)
- Credit quality remains key focus
  - Average LTV on new lending 70.1% (2011 FY: 69.2%)
  - Average ICR on new lending 159.3% (2011 FY: 155.0%)
  - No accounts in arrears
- Increased funding facilities provides platform for further growth
- Intention remains to return to consumer finance lending in due course



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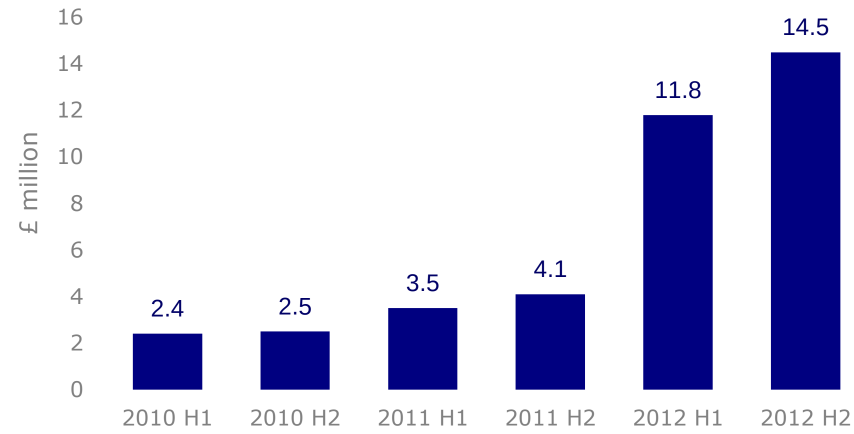
Portfolio acquisitions and servicing

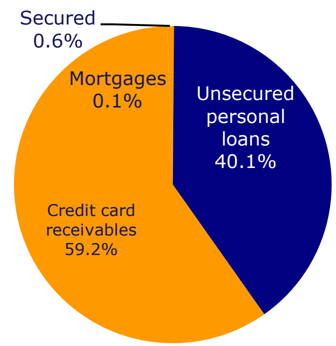
- Purchases have been a significant driver to Group profit
  - Contribution of £26.3 million in 2012 (2011: £7.6 million)
  - Inclusive of margin and servicing income - promote structures provide deferred income benefits as pools repay
- Investments since 2009
  - 8 portfolios, total investment £161.9 million
    - £150.2 million direct investment
    - £11.7 million co-investments

    Associated service agreements total £476 million
  - Portfolios highly cash generative, performing in line with expectations
  - Average loan duration – 4-6 years
  - Extensive management experience applied through diligence and on-going servicing, including portfolio stress testing
- 2012 portfolio investments
  - RBS unsecured loan portfolio
    - October 2011 (with modest forward flow) - £43.7 million
  - MBNA closed consumer credit card receivables
    - December 2011 - £55.7 million
  - MBNA closed consumer credit card receivables
    - September 2012 - £16.1 million

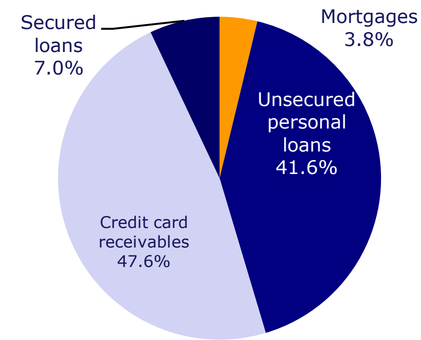
Idem operating profit



Number of loans managed



Value of loans managed



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moorgate loan servicing

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Funding

- Funding conditions improved significantly in 2012
- Material tightening post Funding for Lending Scheme
- Diversified and expanded warehouse capacity
  - Macquarie facility extended and increased - £250 million
  - Lloyds facility - £200 million
- Securitisation programme
  - PM16 reopened programme in November 2011
  - PM17 materially improved pricing, included £50 million pre-funding
- Corporate bond
  - £110 million outstanding to 2017
  - Re-priced April 2012 at 3.729% fixed
- Improved funding opportunities to support Idem purchases

Conclusion

- Strong growth in earnings, achieving record profits
- Further progress in driving up RoE
- Excellent progress achieved in 2012 for new lending
  - Buy-to-let franchise re-established
  - Notable funding improvements evidenced
  - Platform for further growth achieved
- Idem established as leading debt purchaser
  - Material growth in profits
  - Significant opportunities for further investment
- Strong cash flow delivered and embedded in existing investments
- Confidence reflected in new dividend policy
- Capital/cash and operational capacity exists to support strong growth objectives

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Appendix

Company overview

Paragon overview

Paragon is a stable, established and industry leading business

- Leading UK specialist lender
  - Buy-to-let mortgages
  - Consumer loans
- Leading UK debt purchaser and loan servicer
- Solid balance sheet with sizeable assets and robust cash generation
- FTSE 250 listed, £9.6 billion of loan AUM and services approximately 350,000 live customer accounts
- Assets predominantly funded to maturity
- Stable and highly experienced management team

Key facts

Established:	1985
AUM:	£9.6 billion
NAV:	£803.5 million (£2.69 per share)
Index:	FTSE 250
Market cap:	c£750 million
Employees:	c750
Location:	HQ: Solihull, West Midlands

History

1985:	Launched as a specialist lender
1986:	Pioneered securitisation in UK
1995:	Launched first buy-to-let products
2002:	Admitted to FTSE 250
2003:	Acquisition of Mortgage Trust
2008:	Rights Issue
2009:	Launched Idem Capital and Moorgate Loan Servicing
2010:	New lending recommenced
2011:	First post-credit crunch securitisation successfully launched
2012:	8th portfolio acquisition completed through Idem Capital
	Additional warehouse capacity and UK's first post-credit crunch full capital structure securitisation

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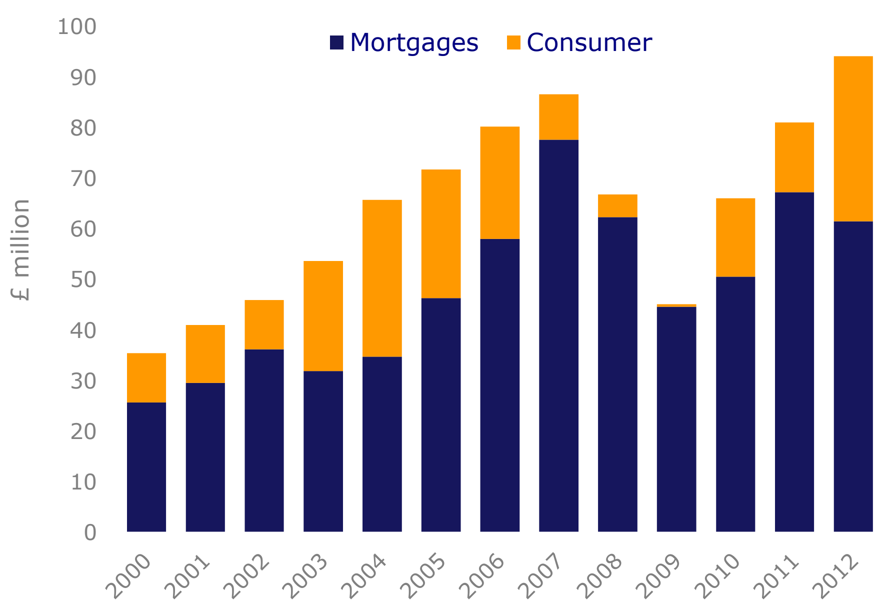
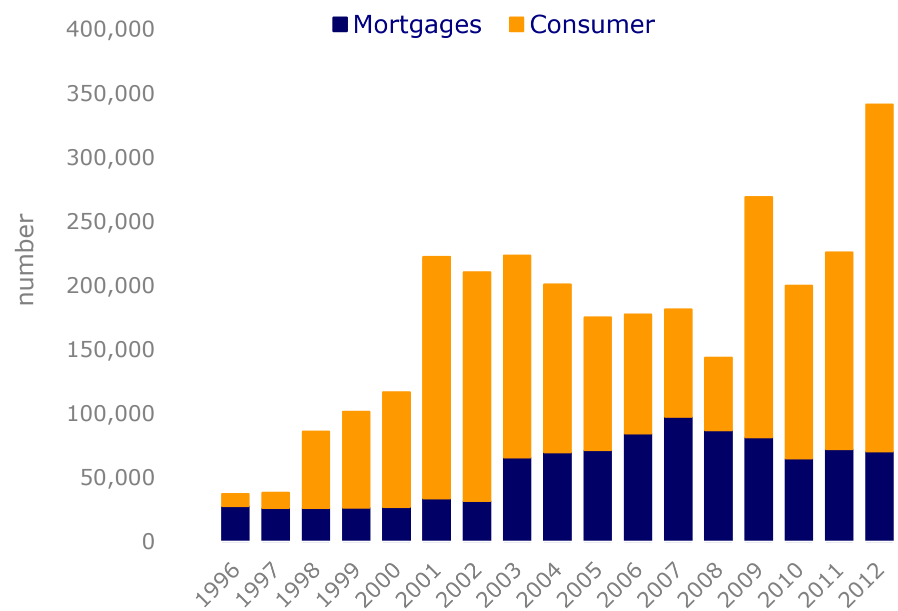
Group overview

Paragon has a long track record of generating strong profits

Long-term profit trends



Total accounts under administration



- Earnings growth from 2004 driven by buy-to-let lending activity
- Recent rebalancing of earnings towards consumer finance due to Idem's purchase programme

- Whilst buy-to-let constitutes majority of loans by value, consumer accounts outweigh mortgage accounts by 4:1

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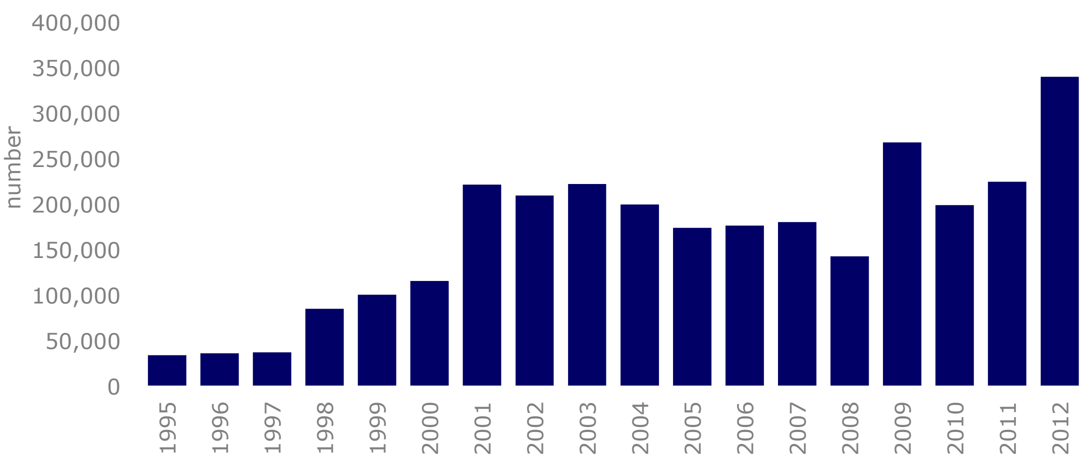
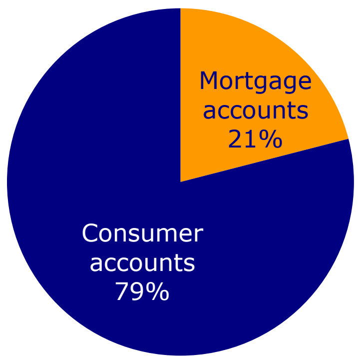
Total assets under management

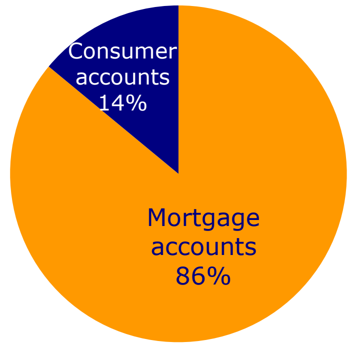
Accounts under management



Accounts under management (number)



Accounts under management (value)



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Group activities

Lending

- Focus on niche, specialist lending – leading independent buy-to-let lender
- Strong credit culture
- Distribution primarily via intermediaries
- Resumed new business origination in October 2010 after 2 year absence
  - Current market share still low by historical measures, further growth expected
- Focus on professional landlords:
  - Currently underserved by wider market
  - HMOs, multi-unit blocks, limited companies
- Consumer finance
  - Focus currently on portfolio acquisition not origination

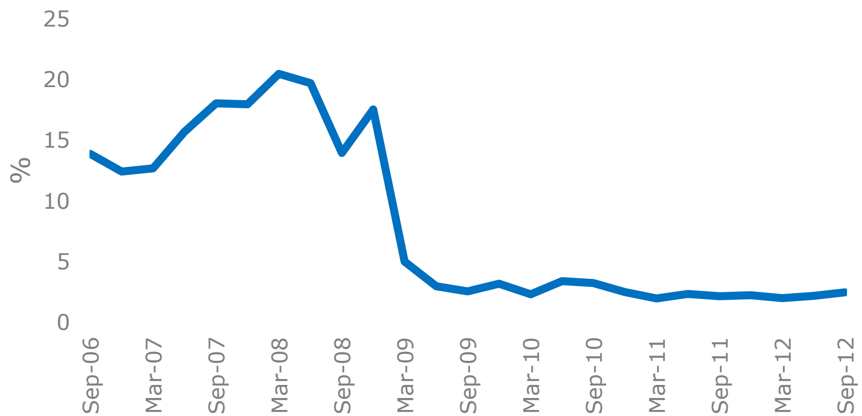
Portfolio acquisitions and servicing

- Idem was UK's 2nd largest acquirer of consumer debt in 2011:
  - 8 portfolio acquisitions to date
  - £161.9 million invested
- Long history of portfolio acquisitions - over £3 billion of loans acquired
- All portfolios boarded onto Paragon's platform
- Loans managed on behalf of third parties, eg banks, building societies, private equity funds and specialist lenders
- Serviced over 1 million accounts
- Most servicing contracts linked to portfolio purchase opportunities
- Servicing and acquisitions contributed 28% to 2012 Group profits

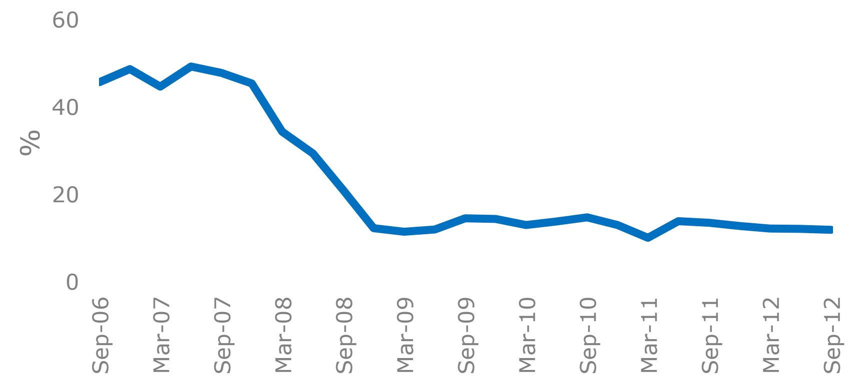
Customer retention

Redemption rates remain low – lack of alternative offerings from competitors

Buy-to-let redemption rate



Secured redemption rate



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Funding

Well funded balance sheet through a combination of securitisations, warehouse facilities and corporate bond

- Paragon Group – holding company corporate debt – subordinated £110 million issue – April 2017 maturity – 3.729%
- Extant assets - £8.8 billion – funded through 17 non-recourse wholly owned SPVs
- New origination:
  - Warehouse facilities:
    - Macquarie Bank - £250 million – non-recourse
    - Lloyds Bank - £200 million – non-recourse
    - After a few months, assets transferred to securitisation vehicle
  - Successful securitisation programme re-established:
    - November 2011 PM16 £164 million – AAA Notes LIBOR + 275bp – non-recourse
    - October 2012 PM17 £175 million – AAA Notes LIBOR + 135bp – non-recourse
£10.5 million – AA Notes LIBOR + 190bp – non-recourse
£10.0 million – A Notes LIBOR + 290bp – non-recourse
- Portfolio purchases:
  - Assets held in non-recourse SPVs
  - No debt outstanding, all funded from Group's free cash resources

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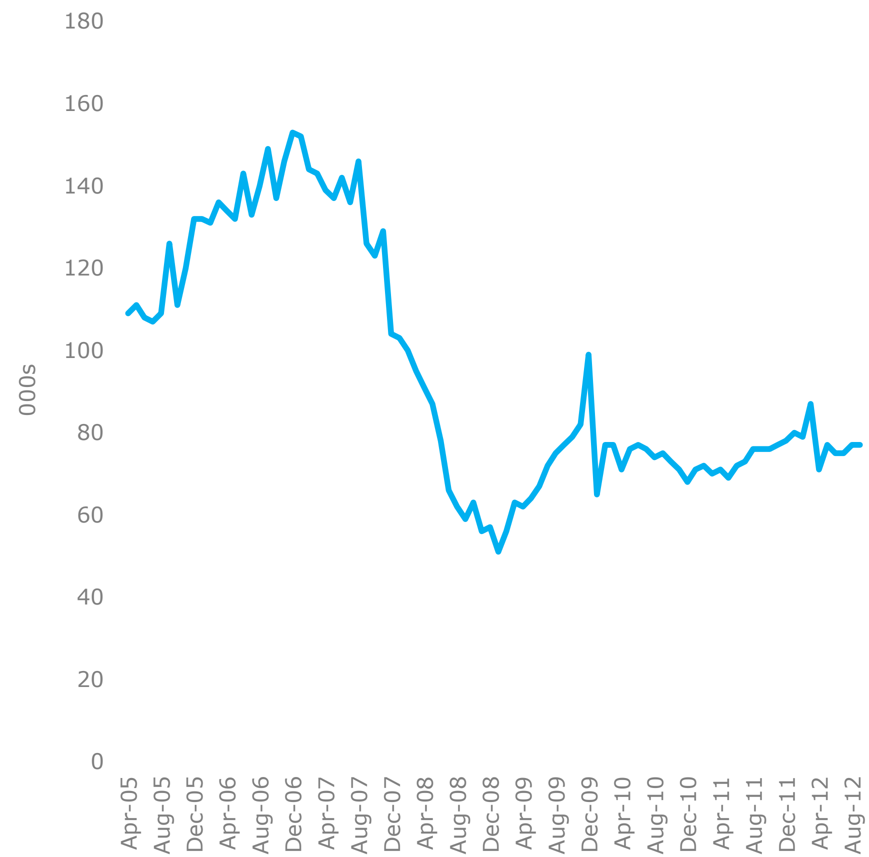
Market background

UK housing market

- Market characterised by low level of transactions:
  - Average 78,000 transactions per month during 2012 to date (2007 average: 135,000 per month)
- House prices remain broadly flat although there continues to be some monthly volatility
- Housing market in equilibrium, just at a lower level

Monthly housing transactions (number)

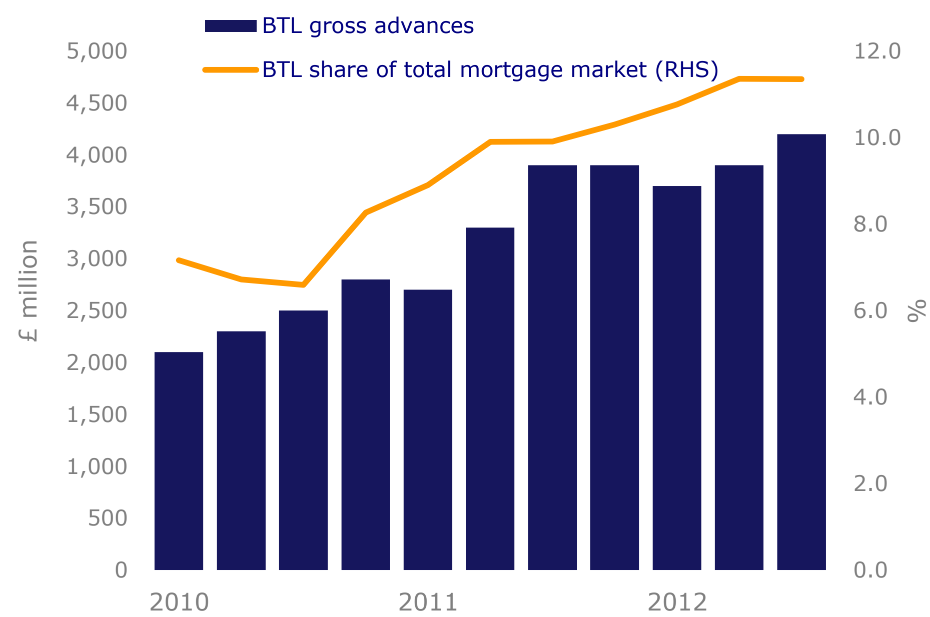


Source: Her Majesty's Revenue and Customs

UK buy-to-let market

- Buy-to-let market continues to grow – value of advances up 24% in last 12 months
- Contrast to the wider mortgage market, where total lending up only 6%
- Some competition increased in retail landlord sector
  - Over 450 products now available (2.6% increase over last 12 months)
  - However, notable recent market share reduction from certain major lenders

Quarterly buy-to-let lending

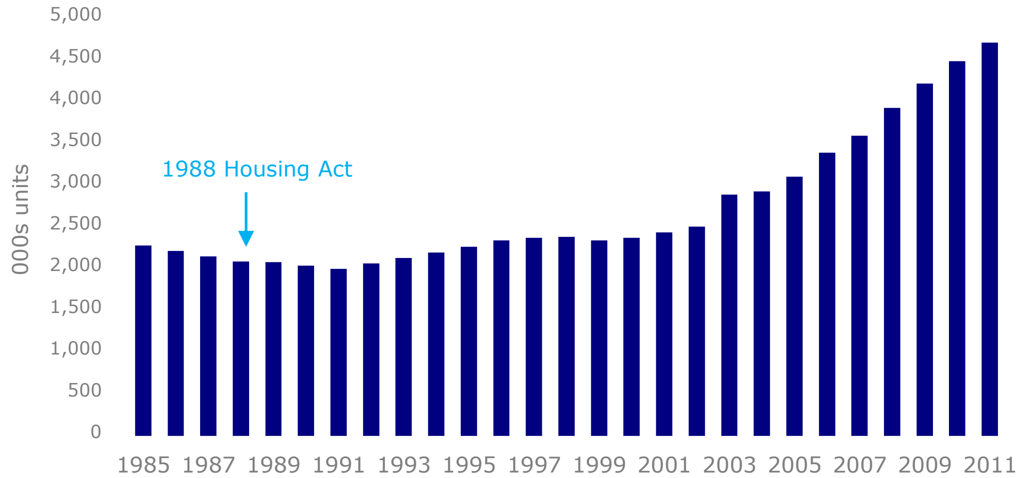


Source: Council of Mortgage Lenders / Moneyfacts

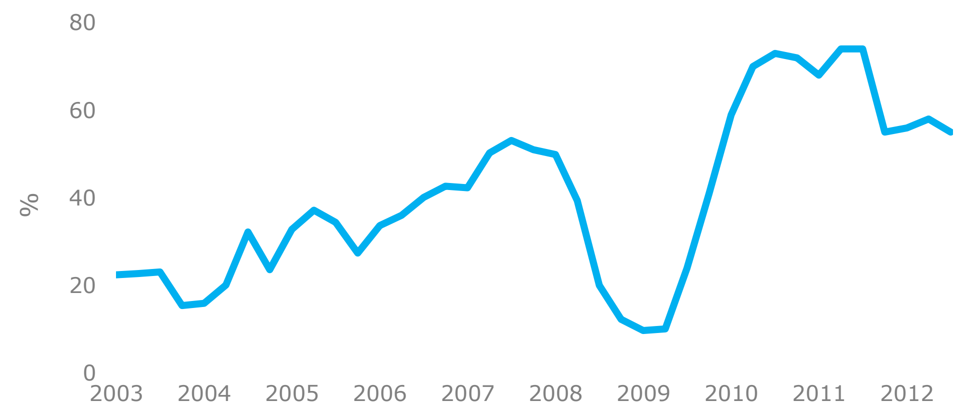
UK rental demand

- UK housing market in transformation, share of housing stock changing:
  - Owner-occupied peaked in 2002 at 69.7%
  - Government-owned down from 30.0% to 18.1%
  - Private rented sector now accounts for 17.2%
- Growth in tenant demand driven by
  - Government housing policy
  - Social and demographic change
  - Immigration
  - Availability of finance for first-time buyers
- Strong rental demand continues
  - 55% of ARLA agents reported more tenants than properties in Q3:2012
  - Savills forecasting rental demand to grow to one in four households by 2020

UK private rented sector



More tenants than properties

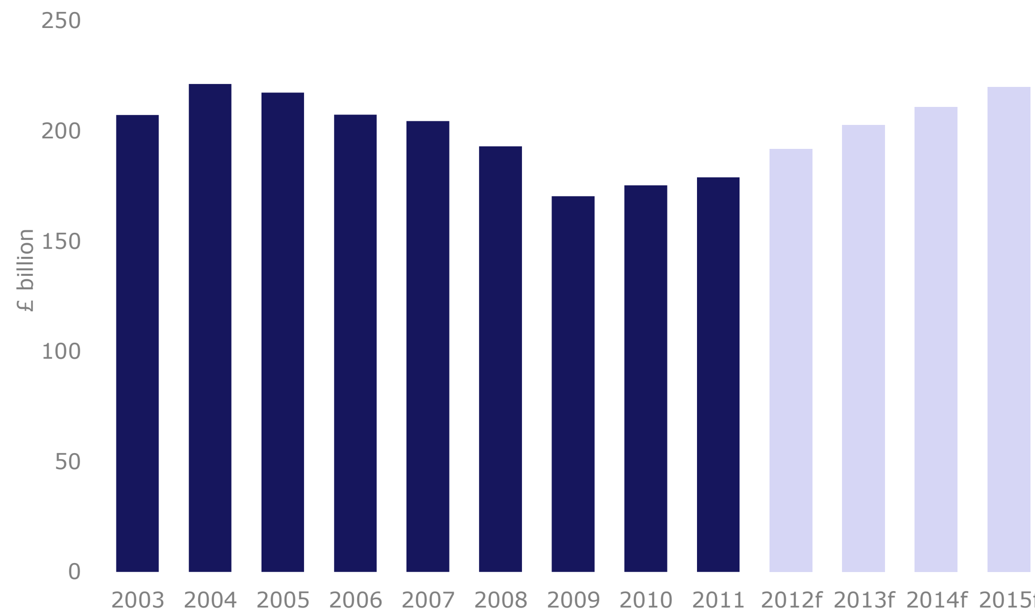


Source: Association of Residential Letting Agents/Communities & Local Government

UK consumer finance market

- Consumer finance market (credit cards, unsecured personal loans, car finance, retail finance and overdrafts) totalled £179 billion in 2011
- Market expected to increase by £41 billion to reach £220 billion in 2015

UK consumer finance market

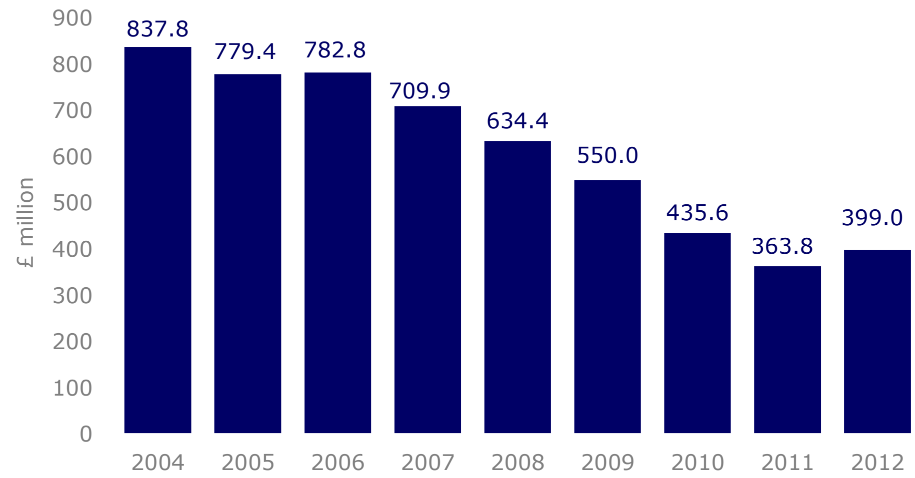


Source: Datamonitor

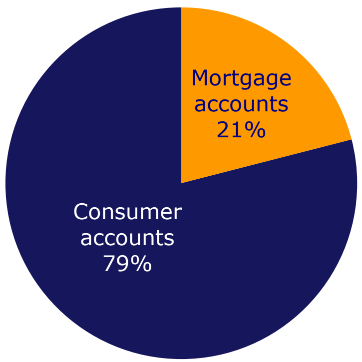
Paragon's consumer finance background

- Paragon's consumer loan book has in the past exceeded £800m, accounting for 47% of Group operating profits in 2004
- Paragon has experience in a broad range of consumer asset classes including:
  - Car finance
  - Secured loans
  - Unsecured loans
  - Retail finance
- Paragon intends to return to consumer finance origination once market conditions enable this

Consumer loan assets



Loan assets managed (number)



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Portfolio acquisitions – market opportunities

Drivers to de-leveraging

- EU bail out requirements
- Basel III
- Revised stress tests, SIFIs, Vickers

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
  - Deloitte - €1.7 trillion (€537 billion UK assets)

De-leveraging opportunity

Mortgages	Consumer
Low capital requirement	Higher capital requirement
High capital cost if sold at discount	More quickly provisioned so smaller charge on sale
NPLs do trade	Manageable scale of individual trades
Future opportunity	Immediate (opportunity over next 5 years)
Long duration	Shorter duration

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