

The Paragon Group of Companies PLC

Half-yearly financial results

Six months ended 31 March 2009



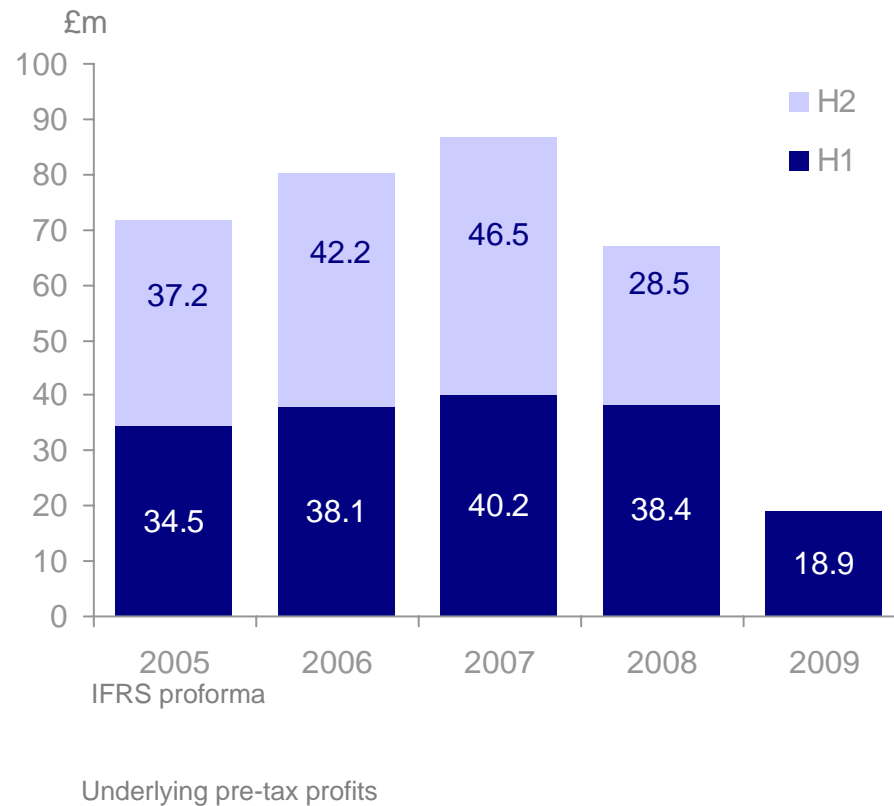
Section 1	Financial results
Section 2	Strategy and outlook
	- Strategy
	- Asset quality
	- Funding
	- New initiatives

Section 1

Financial results

Six months ended 31 March 2009

Group profits

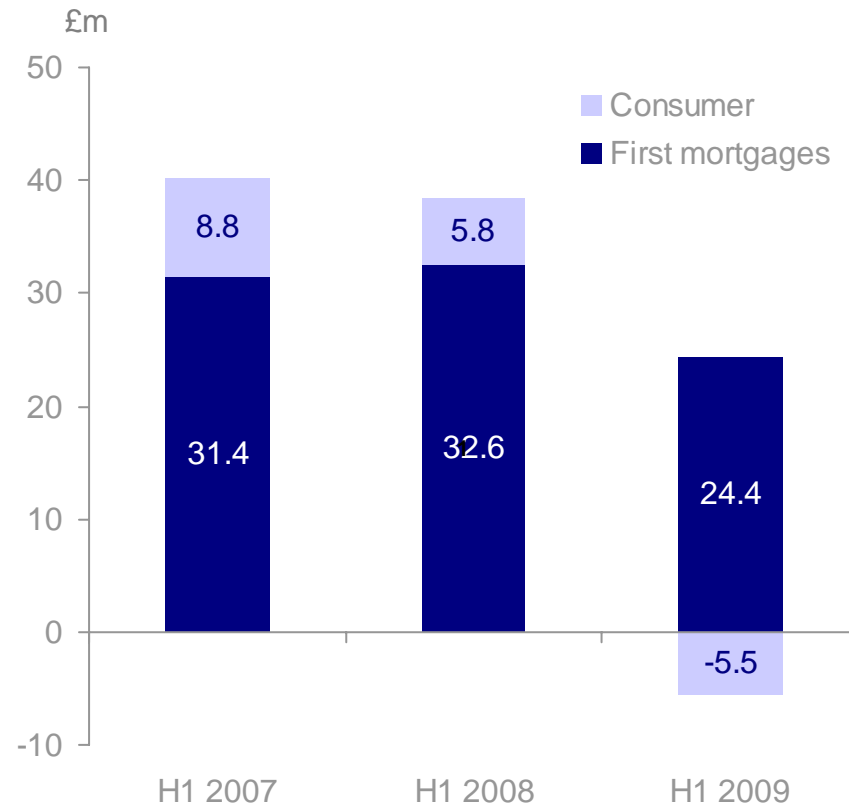


- Effective tax rate 29.6% (2008 H1: 30.3%)
- Interim dividend 1.1p per share (2008 H1: 1.0p)
- Shareholders' funds £625.5m (2008 H1: £612.8m)

Segmental profit analysis



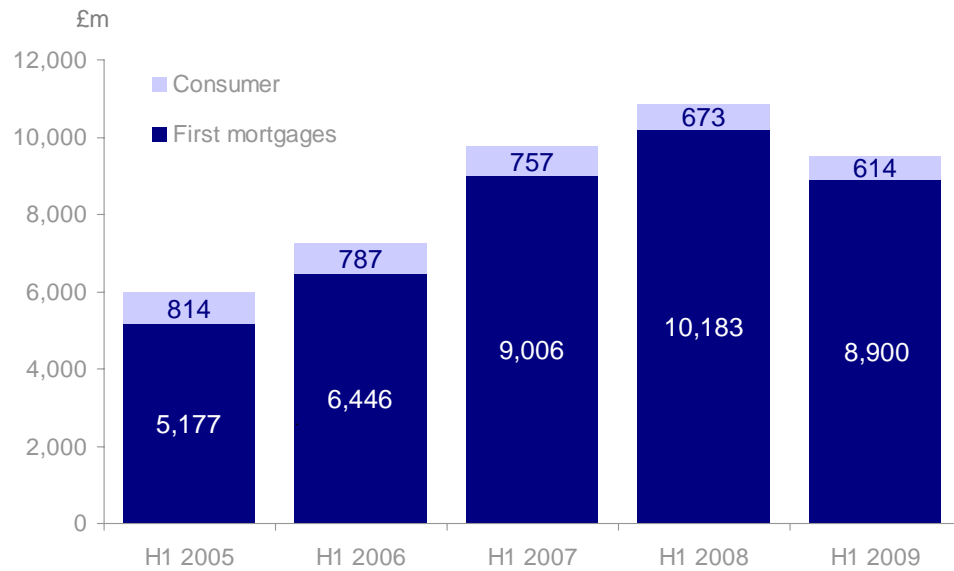
- **First mortgages**
 - Robust performance despite challenging operating environment
 - Increase in impairment due to rising arrears
- **Consumer**
 - Increase in impairment due to reduction in asset values
 - Significant reduction in new business income



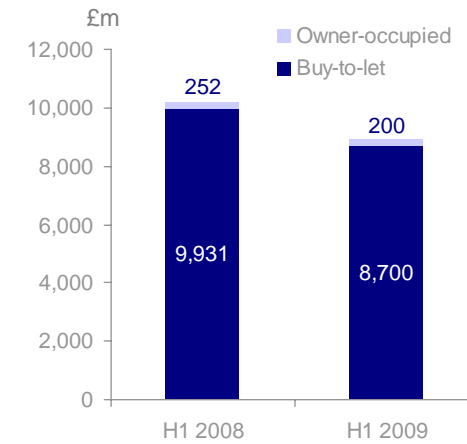
Underlying basis

- Buy-to-let
 - £10.7 million completions (2008 H1: £855.6 million)
 - Further tightening of criteria
 - Further advances only - within SPV limits
- Consumer - secured
 - £58.3 million completions (2008 H1: £94.9 million)
 - Funded through substitution into SPV
 - Further tightening of criteria
 - SPV closed to substitutions on 8 April 2009
 - From April, further advances only - within SPV limits

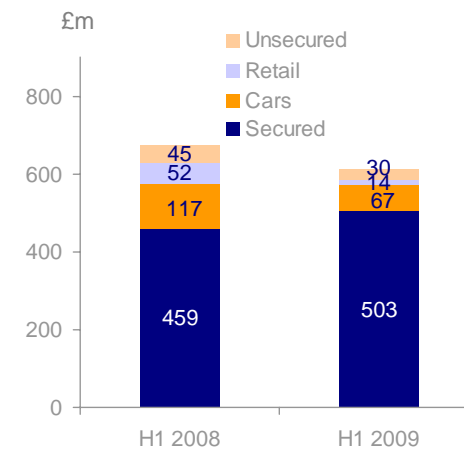
Loan assets



First mortgages



Consumer

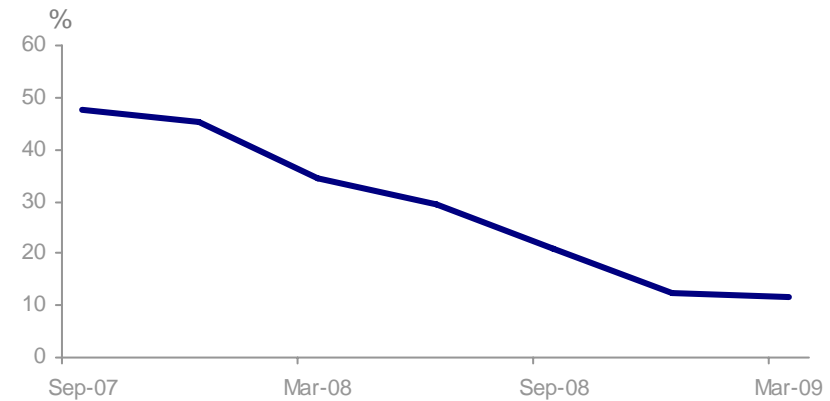


- Redemption rates have fallen sharply
- Alternative products in the market remain restricted
- Reversionary rates compare favourably to current market rates

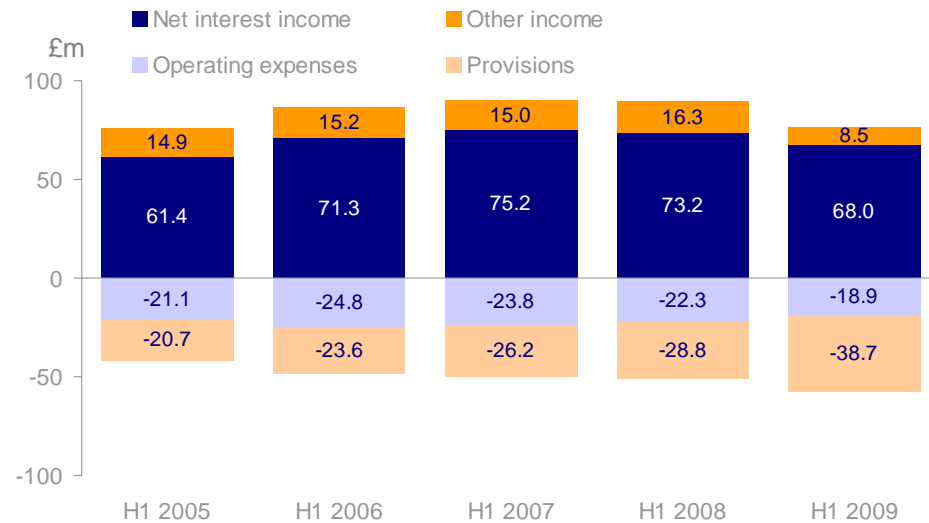
Paragon buy-to-let redemption rates



Secured redemption rate

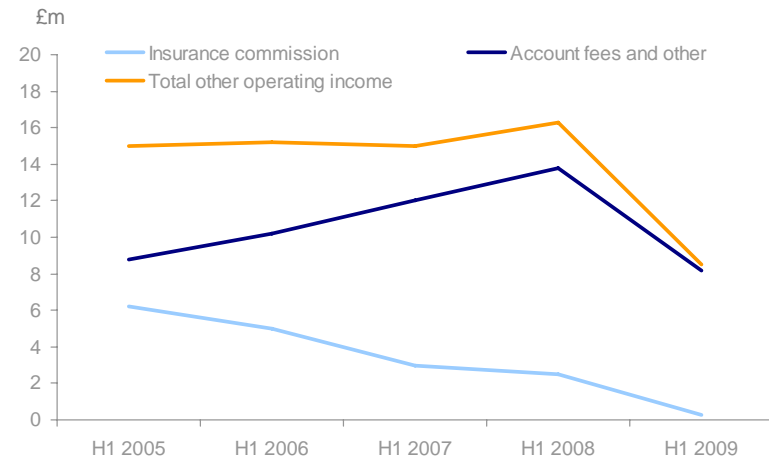


Operating profits (1)

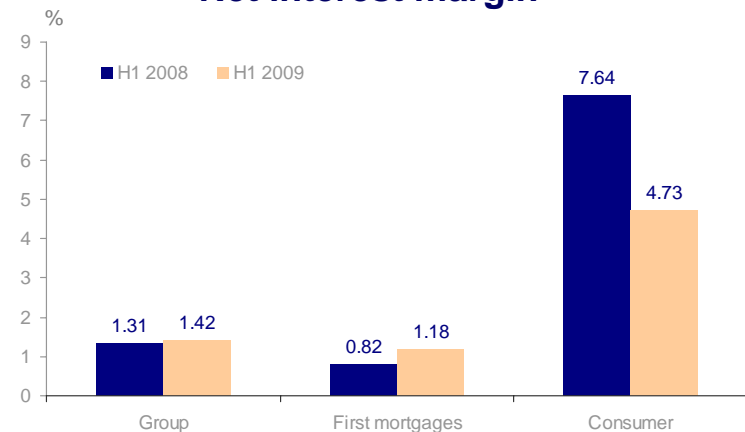


Underlying basis

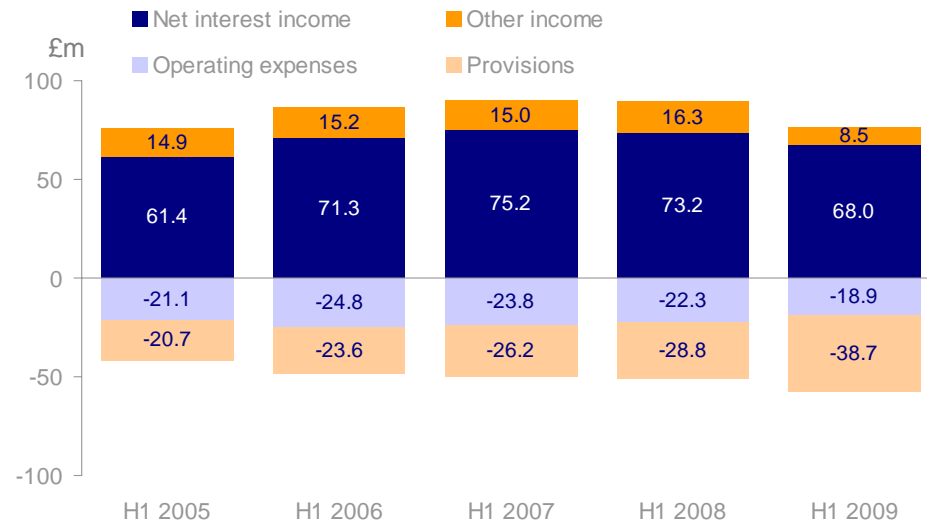
Other operating income



Net interest margin

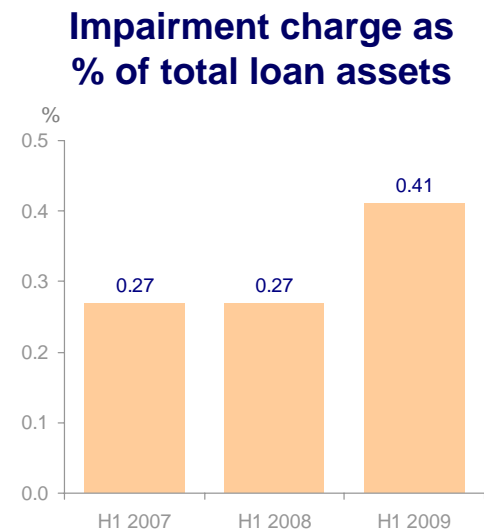
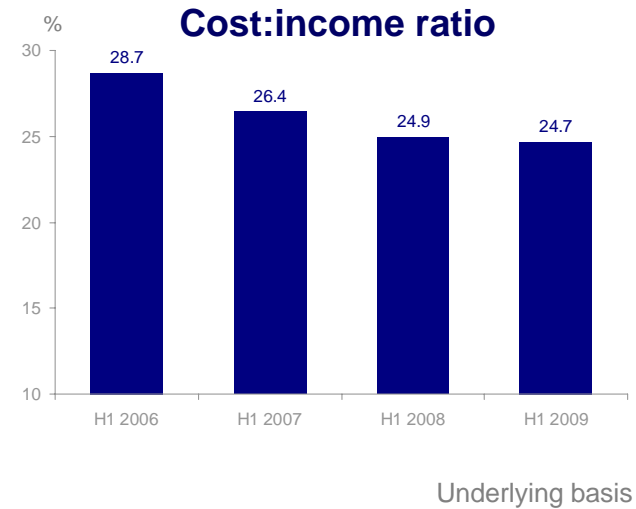


Operating profits (2)



- Increase in impairment charge reflects economic environment
 - Increase in arrears in buy-to-let
 - Falling asset values in consumer

Underlying basis



Section 2

Strategy and outlook

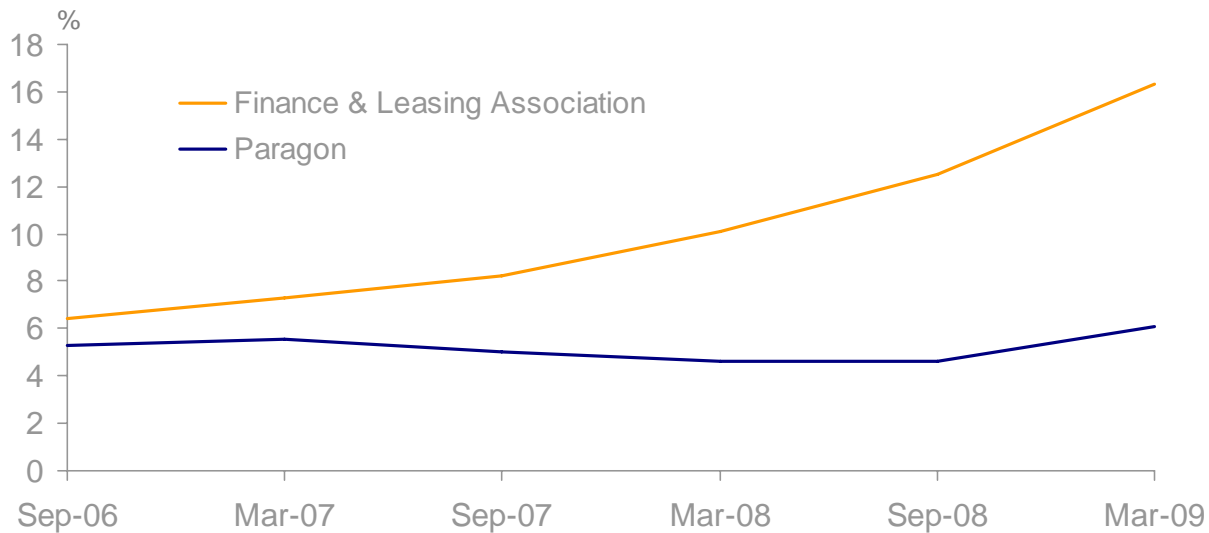
- Economy likely to remain challenging for some time, although early signs of stabilisation emerging
- Rising unemployment and constrained earnings growth likely to continue to impact arrears levels
- House price correction continues although early indications of market activity
- Government initiatives yet to make an impact on mortgage market

- Careful management of the book
- Return to new lending in the future
- Whilst funding markets closed, exploit opportunities created by environment
 - Asset purchases
 - Expansion of products and services for existing customers
 - Servicing third party loan portfolios

- Redemption rates falling
 - Market competition reduced
 - Buy-to-let product availability reduced by 95% since 2007
 - Only 2 BTL lenders from 2007 top 10 still offering new loans
 - Secured lending 90% down over last year – only 1 lender offering products
 - Customer retention activity enhances overall return
 - All criteria significantly tightened
- Asset quality a core focus

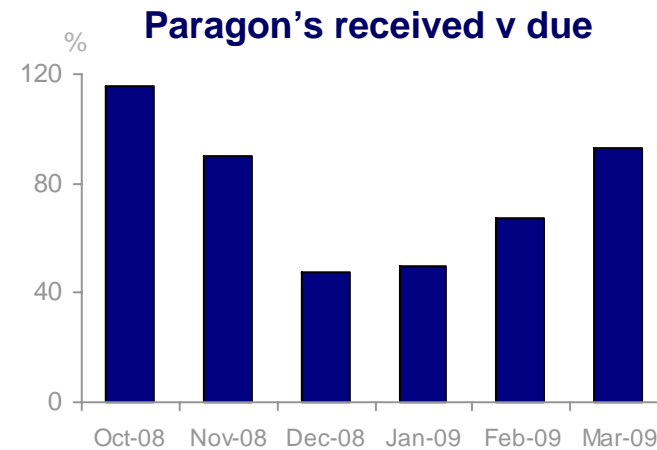
- Resource focussed on collections
 - Capacity significantly enhanced
 - Pre-arrears targeting
 - In-house collections improving cash collections and received v due
 - Redbrick – strong rental management and receiver of rent capability
- Redbrick Receiver of Rent process proving to be effective tool for management of delinquent buy-to-let accounts
 - Strong rental cash flow maintained
 - Provides flexible alternative to enforcement
- Paragon credit quality remains well above industry averages on both buy-to-let and consumer books

Consumer (secured) arrears



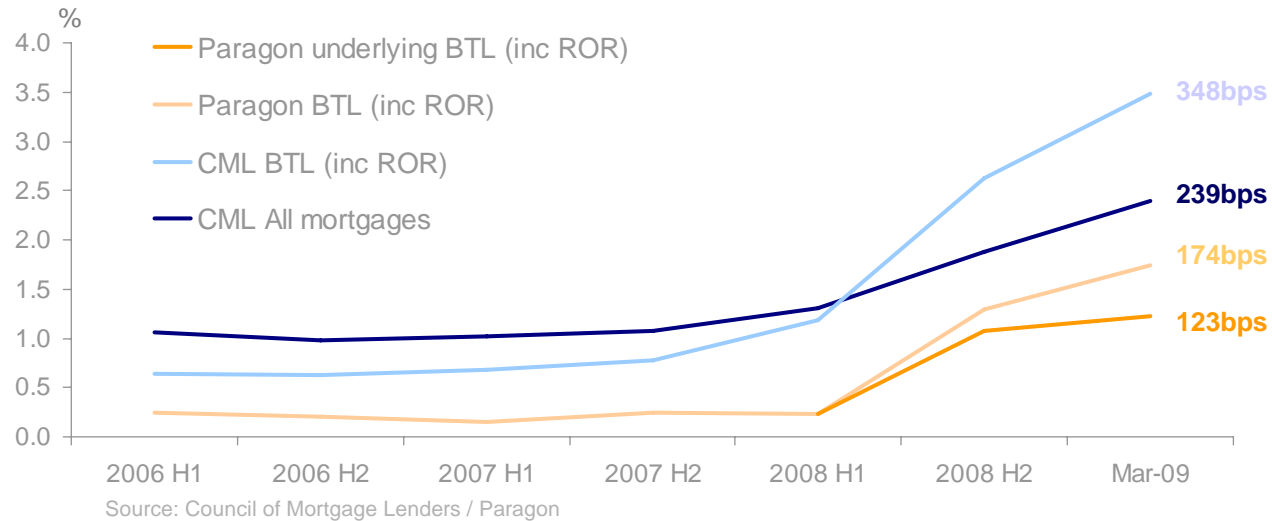
Source: Finance & Leasing Association / Paragon

- Paragon's secured arrears remain significantly below industry averages
- 93% received v due



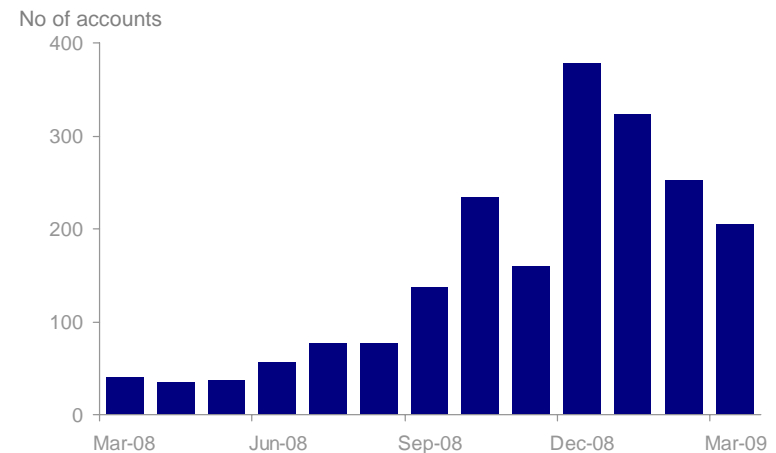
Buy-to-let arrears

3 months + arrears



- Paragon's buy-to-let arrears remain well below industry
- Of 174bps, 51bps due to numerical impact of declining interest rates
- Lower monthly payment in calculation results in higher number of months in arrears, even with a constant arrears value
- New arrears flow slowed significantly since December

Paragon's new 3 months + arrears



Private rented sector

Tenant demand remains strong

- FTB affordability constraints – lower interest rates countered by lower LTVs
- Proportion of 16-34 year olds in PRS increased from 16% in 2001 to 33% in 2007
- Student numbers continue to increase – university applications up 9% (UCAS, 2009)
- New house building significantly below Government targets
- 1.8m people on social housing waiting lists – up 55% over last 5 years – forecast 2m by 2011 (National Housing Federation)

Landlords remain committed

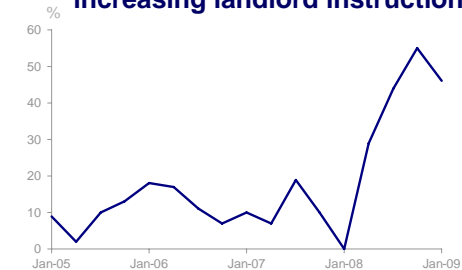
- 33% planning to acquire further properties over next 12 months (ARLA)
- Only 0.2% planning to sell at end of tenancy (RICS)

Balance of surveyors reporting increasing tenant demand



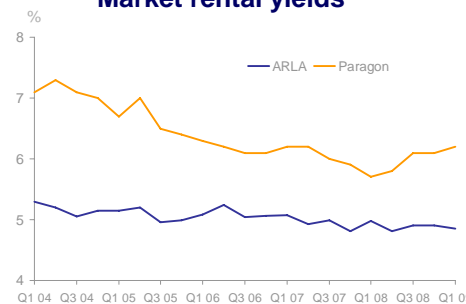
Source: RICS

Balance of surveyors reporting increasing landlord instructions



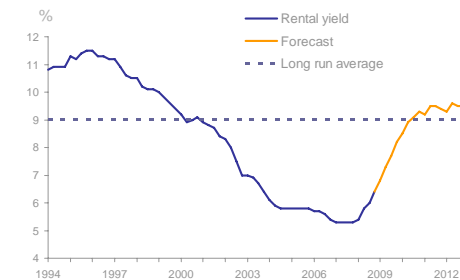
Source: RICS

Market rental yields



Source: ARLA/Paragon

Rental yield outlook



Source: Capital Economics

FTB affordability

	April 2008	April 2009
Average house price	£178,555	£151,861
Average FTB LTV	89%	75%
Average deposit	£19,641	£37,965

Source: Nationwide House Price Index / CML

Proportion of landlords planning to sell when tenancy expires



Source: ARLA

- Loan assets fully-matched funded to maturity – 2050
- £120 million subordinated corporate bond – 2017
- Wholesale credit markets remain closed
- Government has announced a series of initiatives to increase lending
 - Guarantee Scheme for Asset Backed Securities – most relevant to Paragon
 - Scheme requires redesign
 - Non-deposit takers excluded
 - Active lobbying continuing
- No effect on mortgage market to date

“Over half of new corporate loans in Britain and 40% of new mortgages over the last decade came from foreign banks and non-bank institutions.”

Gordon Brown, Prime Minister, January 2009

New service initiatives



- Building on previous experience of third party servicing through Moorgate Loan Servicing and Arden Credit Management
- Utilises core administration and collection skills
- A number of contracts in place



- Negotiations ongoing on others
- New product lines



- Insurance
- Third party receiver of rent
- Tenant assessments
- Rental guarantees
- Energy performance certificates



- Asset purchases
 - No market trades of note
 - Significant pricing gap remains
 - Government funding schemes limit immediate sales
 - Portfolios remain non-core to current owners
 - Debt opportunities
- Limited scale likely
 - Cash management remains priority

- Extraordinary market conditions
- Performance remains robust
 - Asset quality better than market again
 - Strengthening cash flow
- Early signs of improving conditions, but not complacent
- Funding remains constrained, active lobbying will continue
- Encouraging progress with new initiatives

Disclaimer



- This presentation has been issued by The Paragon Group of Companies PLC (“Paragon”). This presentation is directed only at persons in the United Kingdom who fall either within Article 19 (Persons having professional experience in matters relating to investments) or Article 49 (High net worth companies) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.
- It is supplied for information only and may not be reproduced or redistributed. This presentation is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment nor shall it form the basis of or relied upon in connection with, or act as any inducement to enter into, any contract or commitment whatsoever.
- This presentation may contain certain “forward-looking statements” with respect to certain of Paragon’s plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Paragon’s control including among other things, UK domestic and global economic business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Paragon and its affiliates operate. As a result, Paragon’s actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Paragon’s forward-looking statements.
- Paragon undertakes no obligation to update the forward-looking statements contained in this presentation or any other forward-looking statements we may make.