

The Paragon Group of Companies PLC

Half-yearly financial results

Six months ended 31 March 2012

Agenda

Section 1

Financial results

Section 2

Strategy update

Appendix

Company overview

Highlights

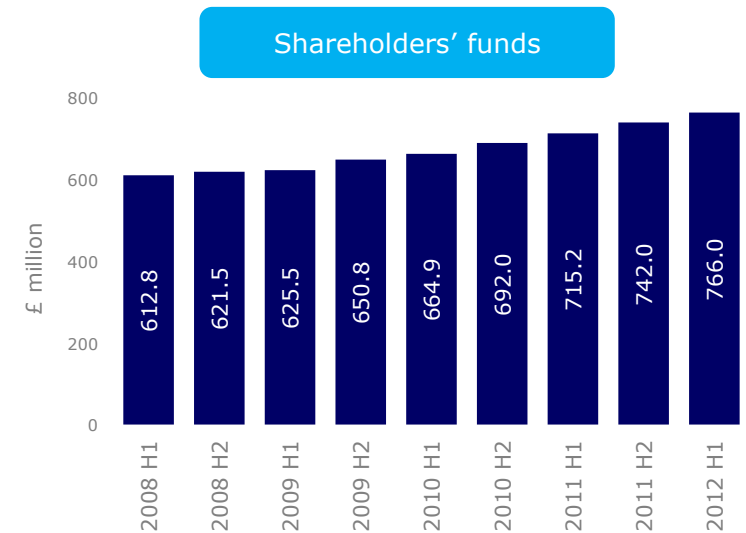
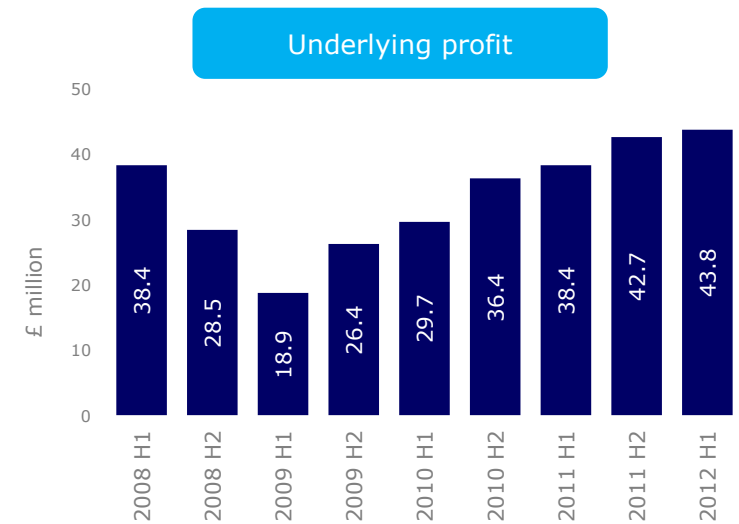
- Continued strong financial performance
 - Operating profit up 14.1%
 - Driven by top line revenue growth
 - Idem / Moorgate generated £11.8 million profit contribution
 - Consumer finance 33.1% of Group profits
 - Strong portfolio performance and operational cash generation
 - Further progress in driving up RoE
- Significant progress with strategic plans
 - Loan book growth restored
 - First securitisation post-credit crunch
 - Idem Capital established as a leading participant in the portfolio acquisition market
 - c£100 million invested in the period

Financial results

Six months ended 31 March 2012

Financial highlights

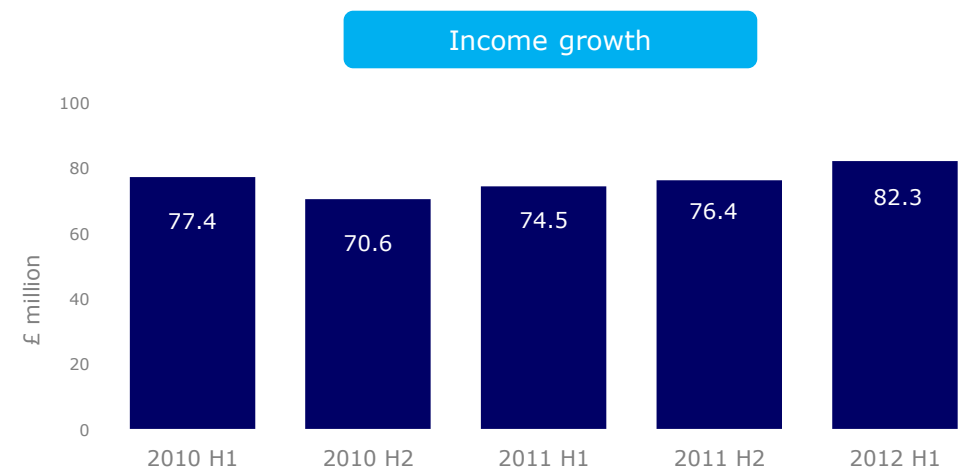
	2011:H1 £m	2012:H1 £m	% change
Pre-tax profit	39.5	44.8	13.4%
Of which:			
Exceptionals	0.0	0.0	
Fair value	1.1	1.0	
Underlying profit	38.4	43.8	14.1%
Tax rate	27.8%	24.8%	
Dividend per share (interim)	1.35p	1.50p	11.1%
Earnings per share	9.7p	11.4p	17.5%
Shareholders' funds @ 31 March	£715.2m	£766.0m	7.1%



H1 analysis

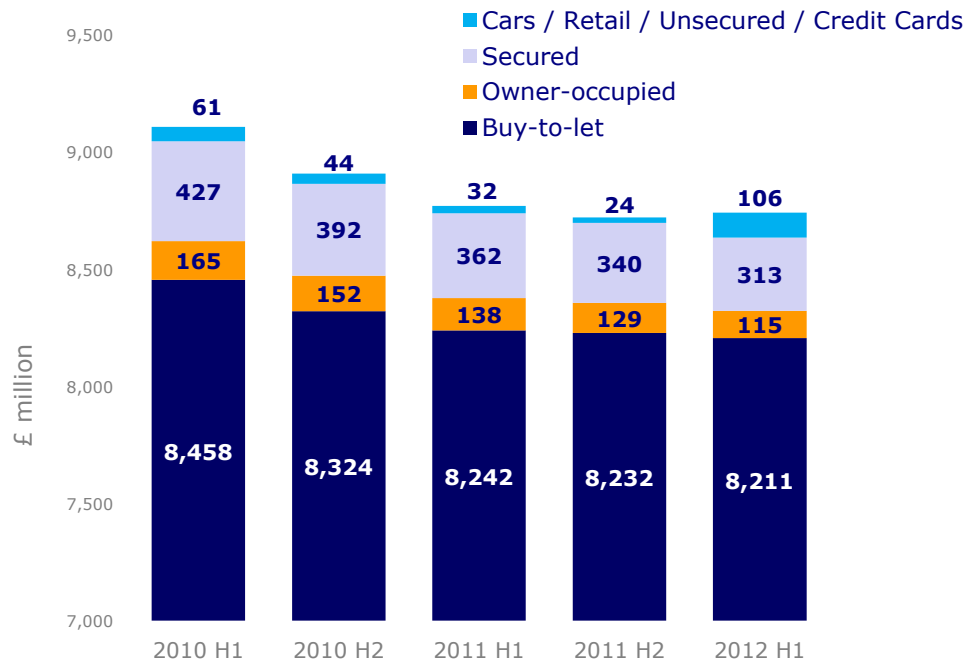
	2010: H1 £m	2011: H1 £m	2012: H1 £m
Income	77.4	74.5	82.3
Expenses	(21.0)	(22.8)	(25.2)
Impairments	(26.7)	(13.3)	(13.3)
Cost:income	27.1%	30.6%	30.6%
Underlying profit	29.7	38.4	43.8

- Driver of profit growth has changed
 - 2010 profit growth driven by declining impairments
 - From 2011, profit driven by income growth

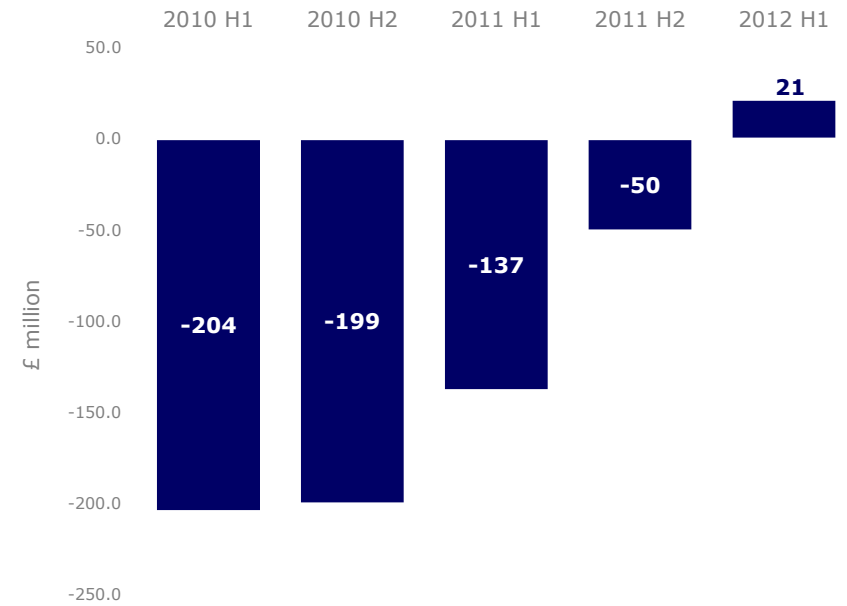


Segmental loan assets

Group loan assets



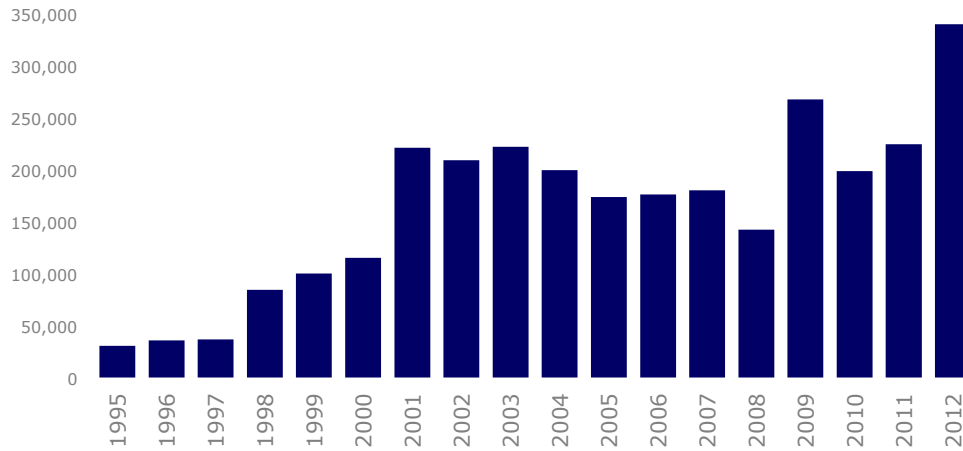
Loan book movement



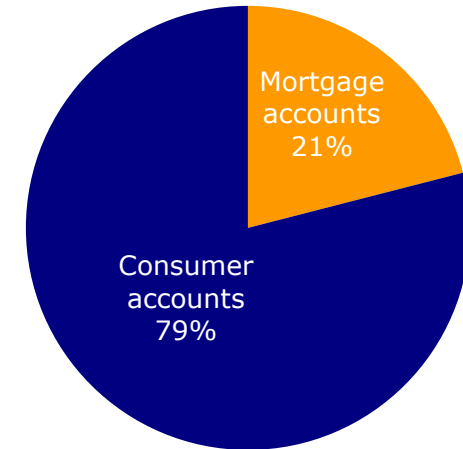
Total assets under management

- Over 340,000 accounts under management - total £9.8 billion
- Consumer account numbers outweigh mortgage accounts by 4:1

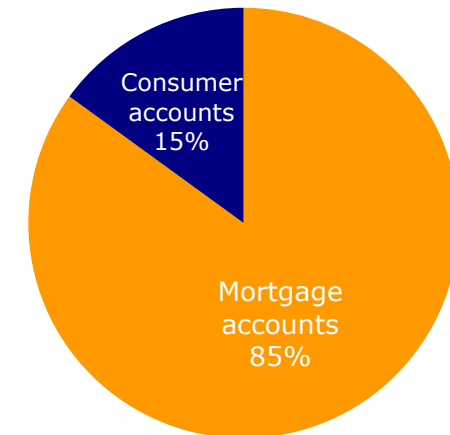
Accounts under management (number)



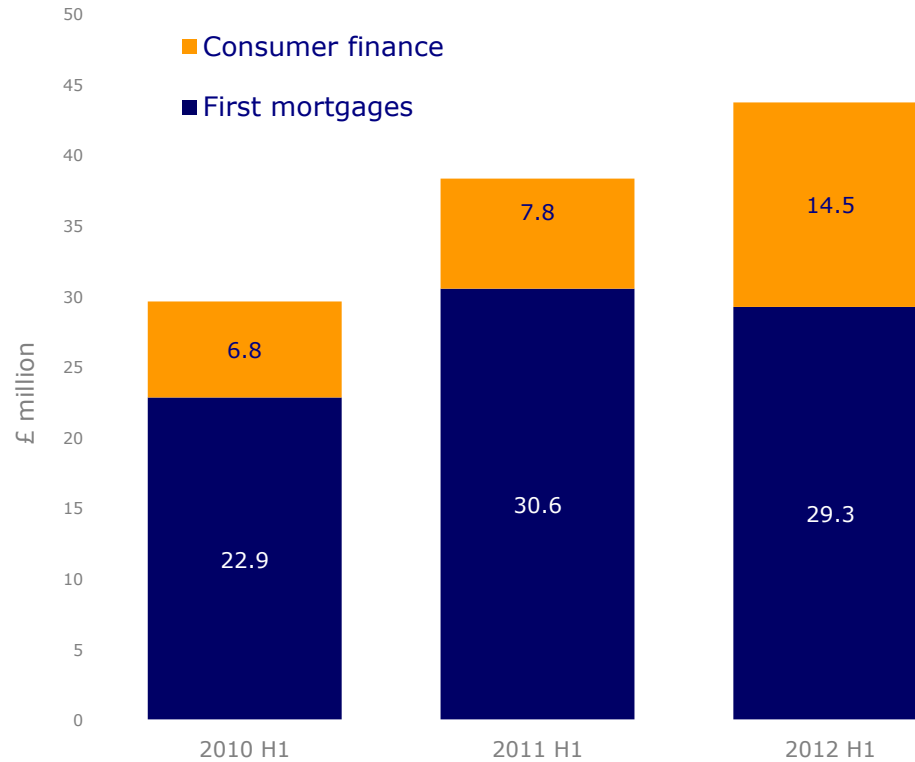
Accounts under management (number)



Accounts under management (value)

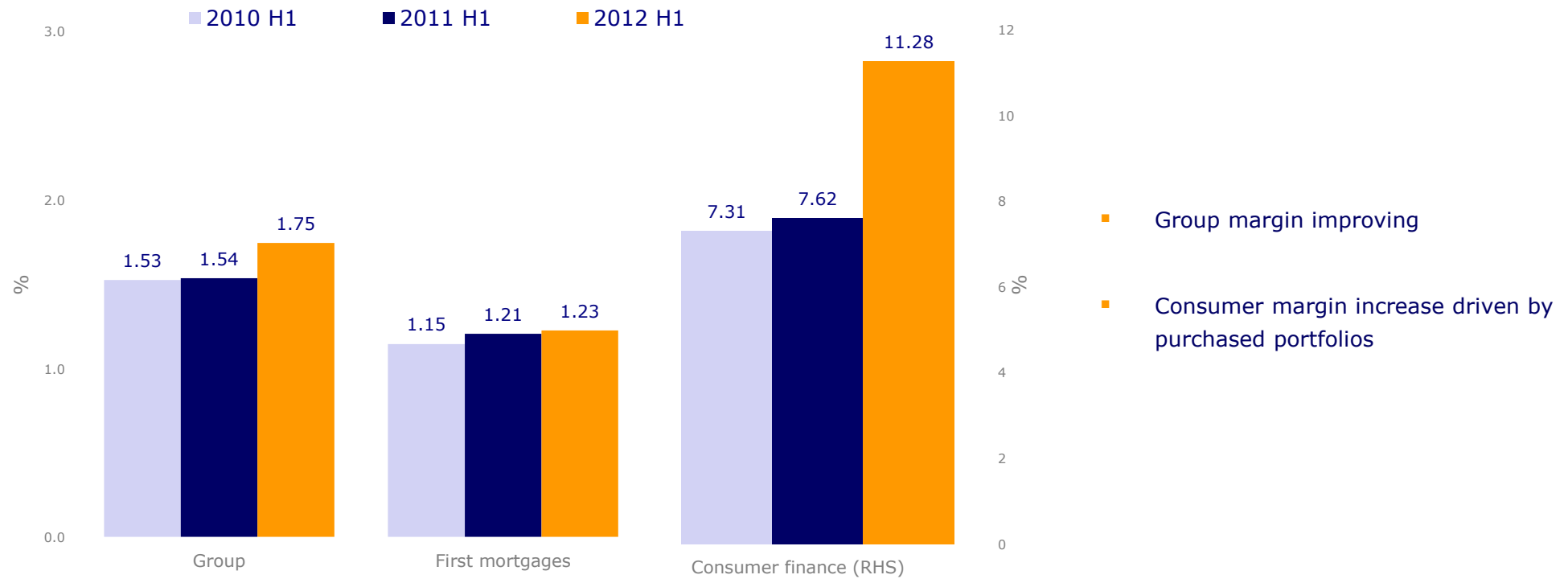


Segmental profit analysis

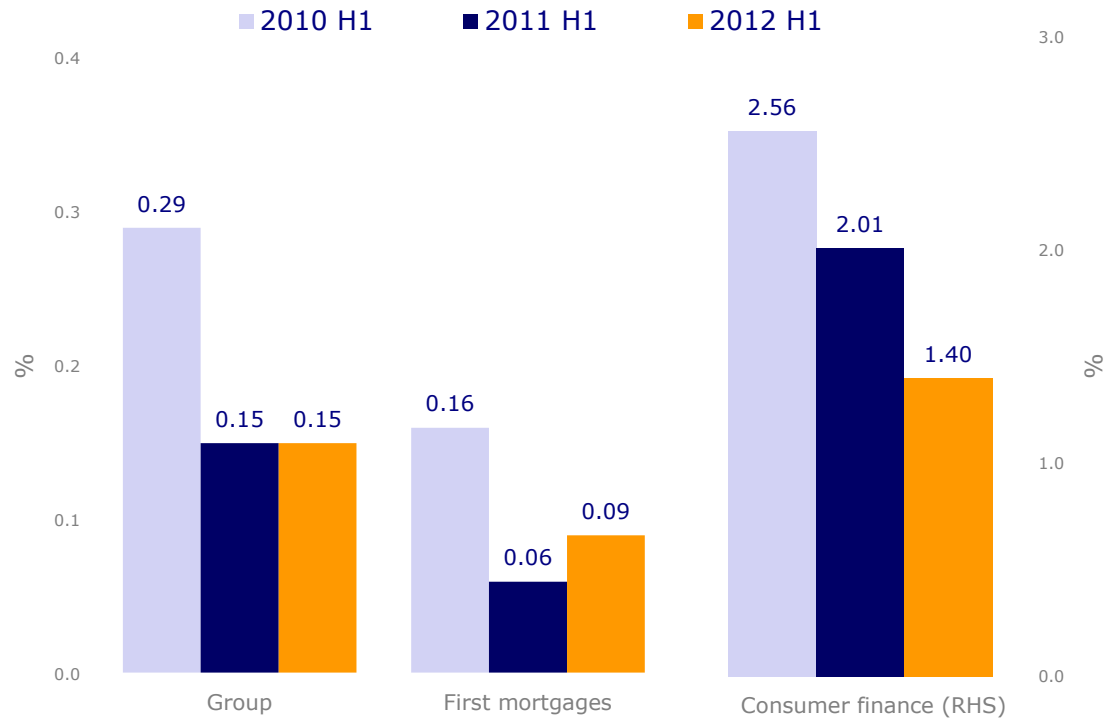


- Strong growth in consumer finance segment
- Idem making increasingly significant contribution (2012:H1 £11.8 million, from £3.5 million in H1:2011)
 - Acquired portfolios performing well
 - Third party servicing growing

Net interest margin

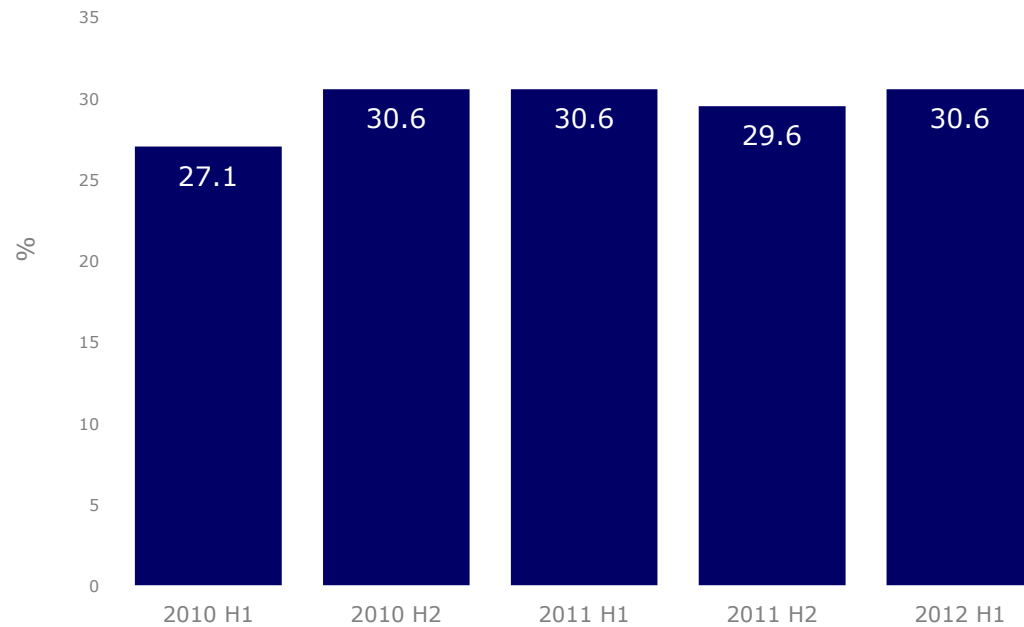


Impairment charge as % of total loan assets



- Group impairment has stabilised with some fluctuations within the two segments
- Prudent provisioning policy, reflecting careful management of each loan book

Cost:income ratio



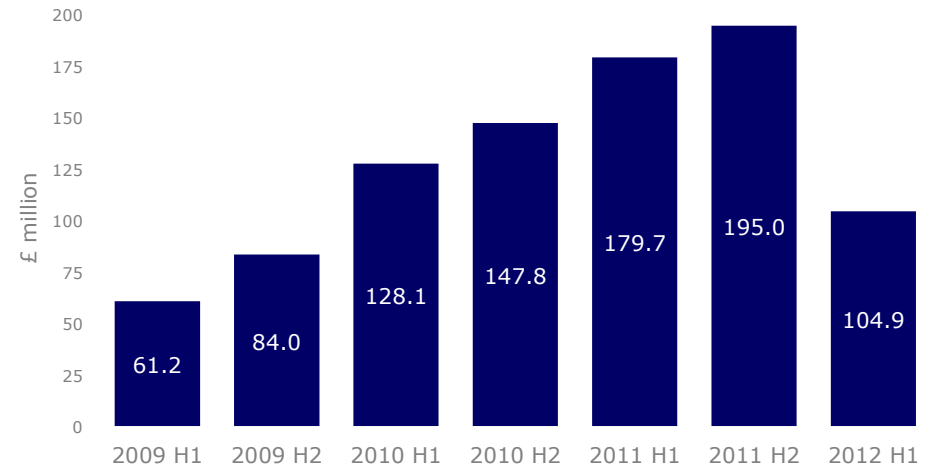
- Operating expenses tightly controlled
- Some increase in staff costs reflecting recruitment to support expanding operations

Cash margins

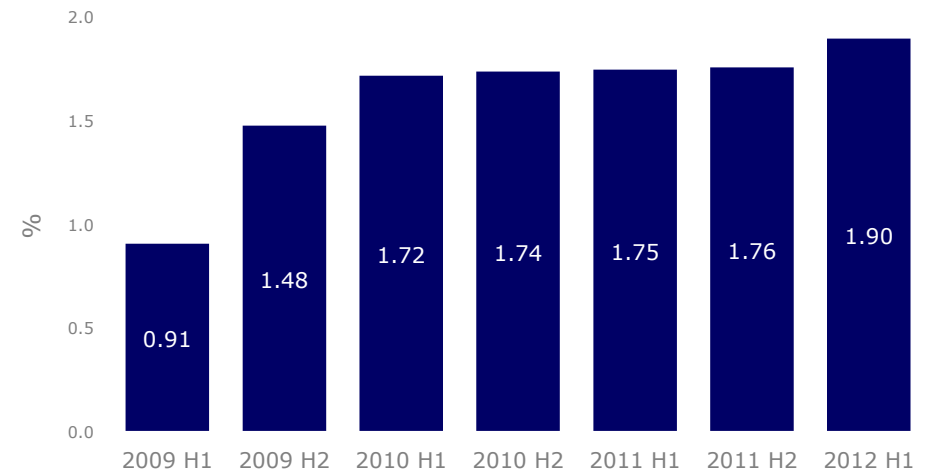
- Free cash balances at 31 March 2012: £104.9 million (2011 H1: £179.7 million)
 - Continued strong cash generation
 - Off-set by asset purchases
 - £121.8 million spent since April 2011

- Cash margin increased, reflecting portfolios purchased

Free cash balances

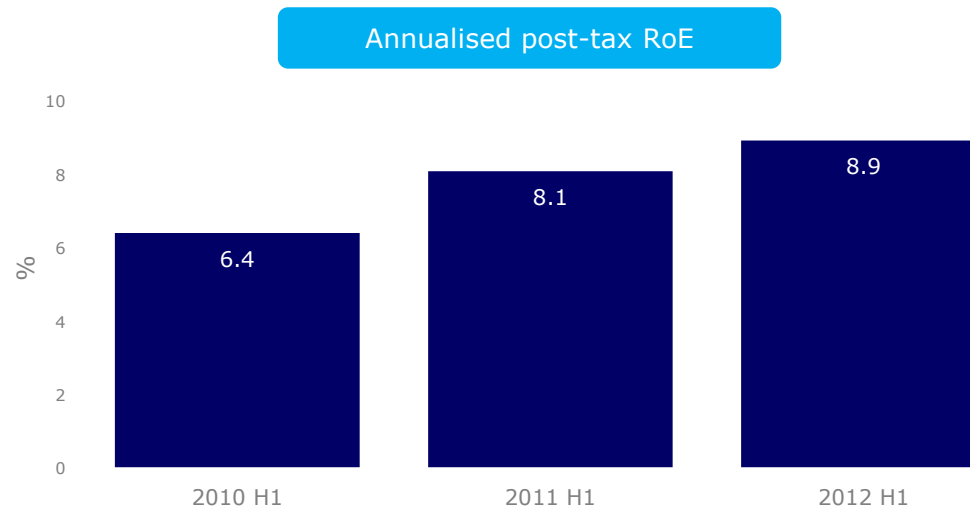


Cash margin



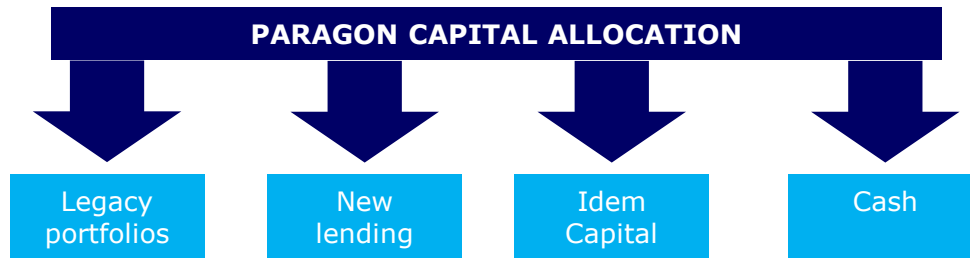
Strategy update

Strategic development



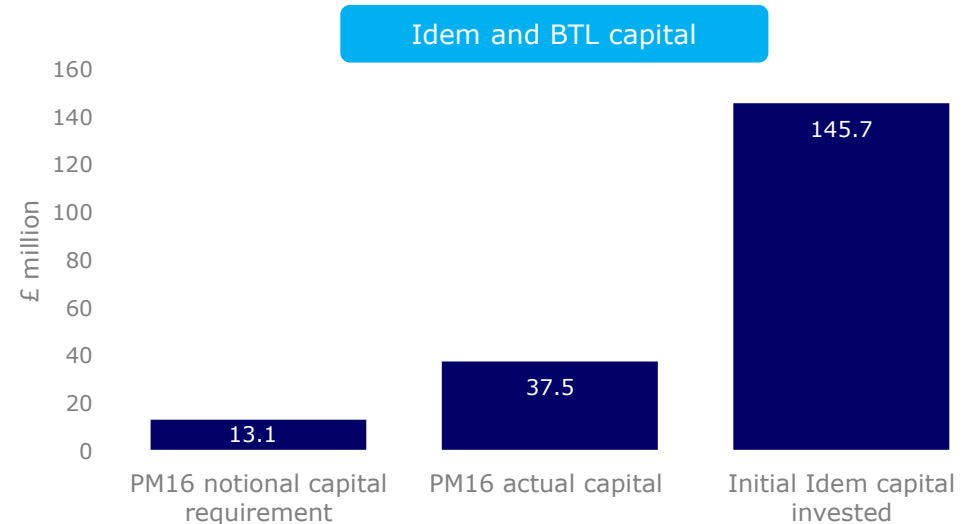
Capital and cash management

- Regulatory capital, including Basel III, not applicable
- New securitisations require minimum 5% "skin-in-the-game"
- Paragon capital invested across business lines
- Available free cash synonymous with free capital
- Free cash depresses RoE



- Buy-to-let new lending
 - Credit enhancement (notional capital) 8% at single-A
 - 15% RoE target
 - Buy-to-let actual capital invested – PM16 £37.5 million
 - Notional requirement at 8% - £13 million
 - PM16 mezzanine notes retained, 3 year call option
- Idem
 - Loan portfolio size and capital invested virtually identical
 - 15% RoE target on capital invested

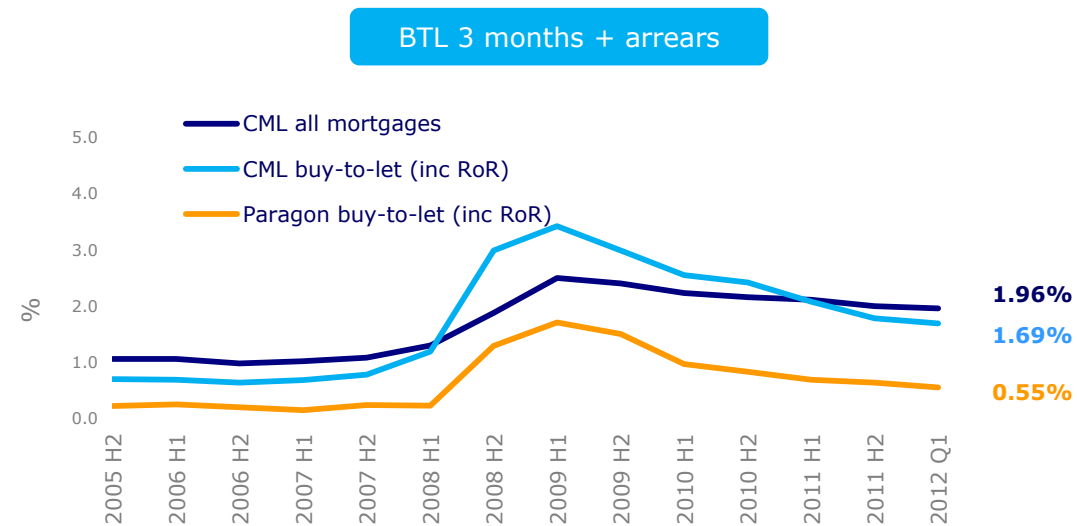
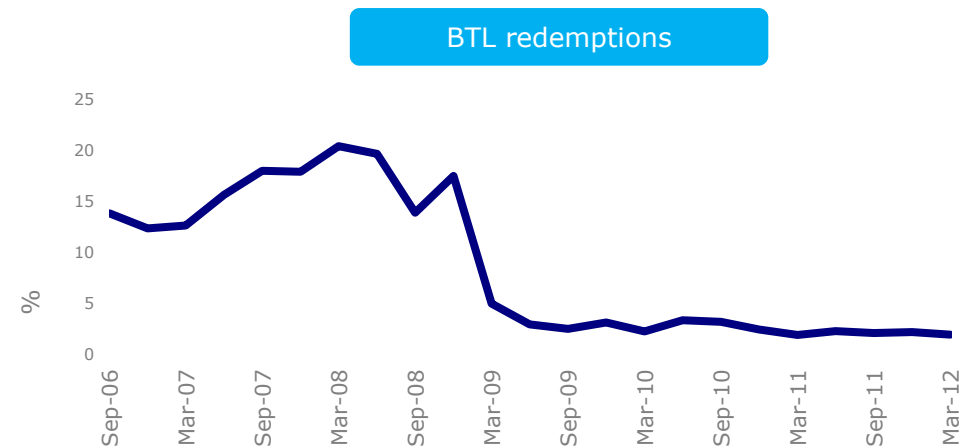
- Available capital / cash
 - £104.9 million at 31 March 2012
 - Net operating cash flow generation over last 12 months c £100 million
 - Operational cash flow stronger than retained earnings
 - Idem investments unleveraged – capacity exists to generate further cash
- Both Idem and BTL are designed to achieve a 15% RoE
 - Very different capital requirements



- Capital in PM16
 - £32.1 million mezzanine notes
 - £5.4 million sub-loan

Back book performance

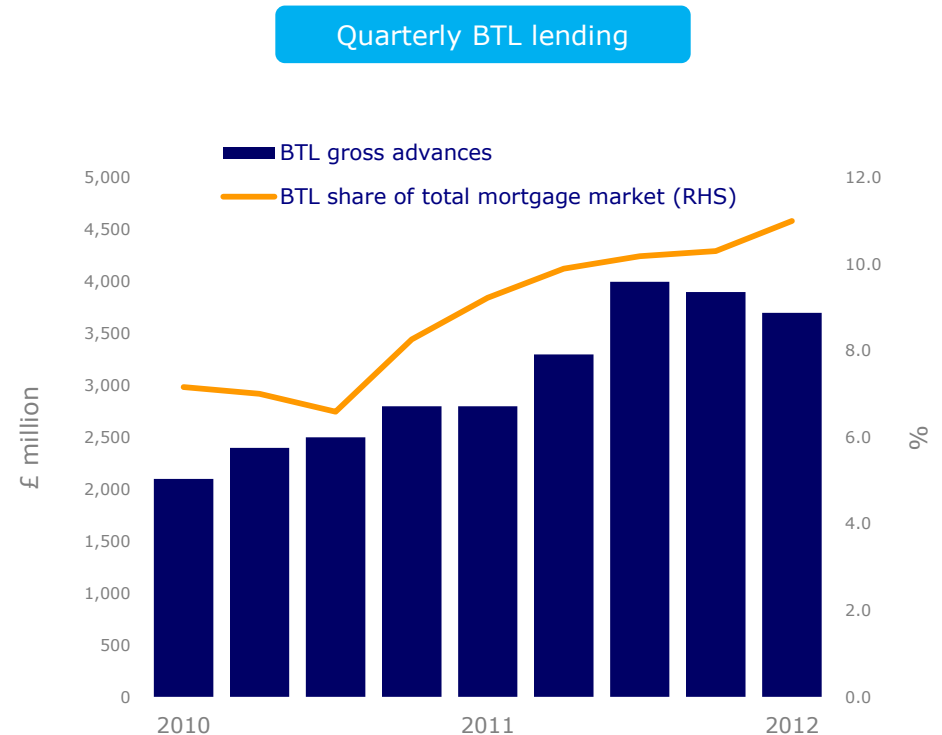
- Buy-to-let redemptions continue to fall
 - £85.2 million in 2012 H1, from £90.4 million in 2011 H1
- Paragon assets significantly outperform wider industry
 - Buy-to-let 3 months+ arrears fell to 55 bps
 - 90% of 3m+ arrears subject to ROR
 - 1,530 properties in ROR
 - 92% of available ROR properties are let
- Consumer books performing well, in line with expectations
- Strong operational cash flow from SPVs



Source: Council of Mortgage Lenders / Paragon

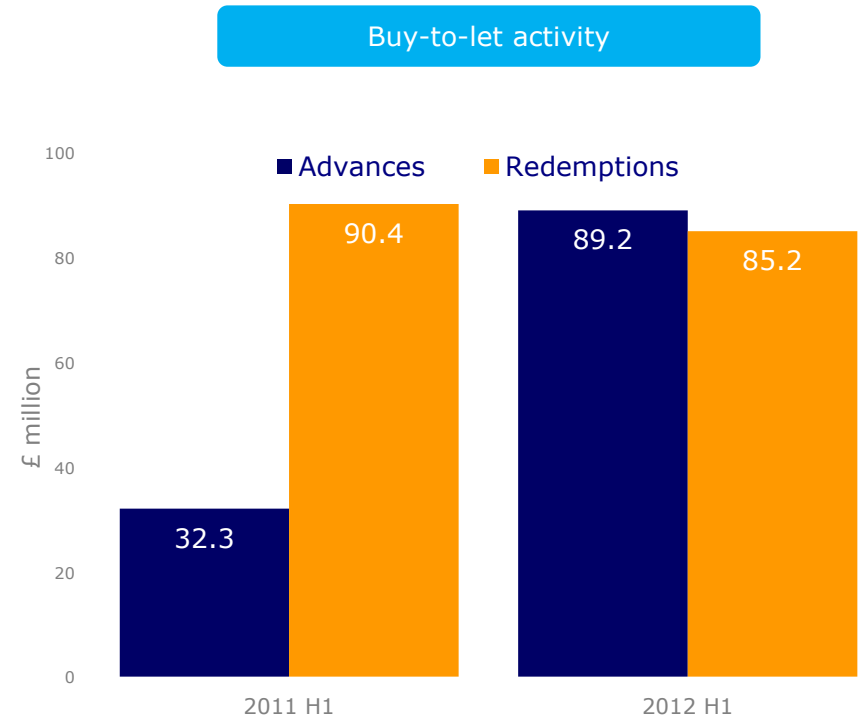
Buy-to-let market

- Buy-to-let market continues to grow – value of advances up 43% in 2011
- Q1 2012 up 32% on Q1 2011
- Contrast to the wider mortgage market, where total lending was up 11%
 - Q1 activity boosted by stamp duty changes
 - Buy-to-let accounts for growing proportion of gross lending
- 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
- Evidence of higher bank funding costs being passed on in wider margins



New lending

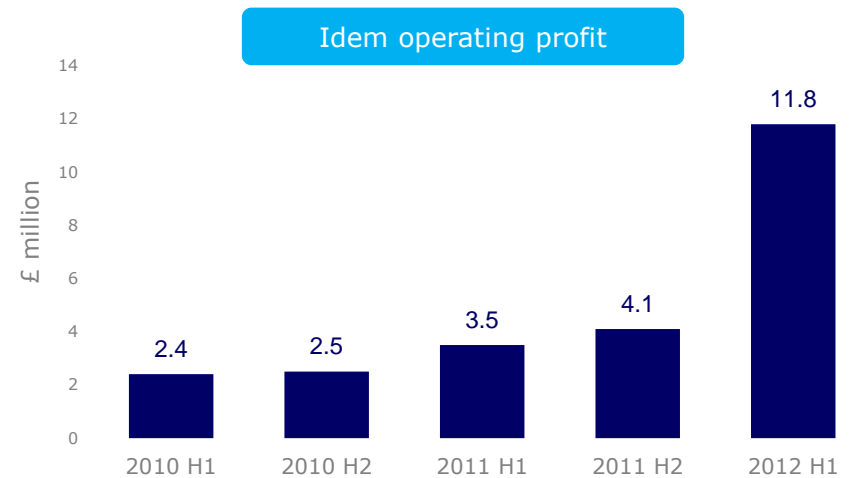
- Able to be highly selective, with tight focus on credit quality maintained
 - Average LTV on H1 new lending 69.3% (2011 FY: 69.2%)
 - Average ICR on H1 new lending 158.2% (2011 FY: 155.0%)
 - No accounts in arrears
- Pipeline remains strong (£103.1 million at 31 March 2012)
- SVRs have been widened by 50bps



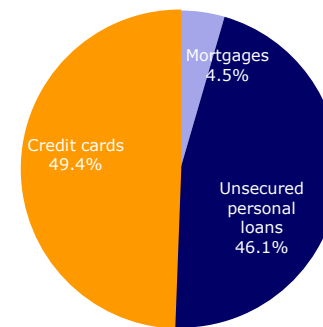
Loan acquisitions – consumer portfolios

- Purchases have been a significant driver to Group profit
 - Contribution of £11.8 million in 2012 H1 (2011 H1: £3.5 million)
 - Inclusive of margin and servicing income - promote structures provide deferred income benefits as pools repay
- Investments since 2009
 - 7 portfolios, total investment £145.7 million
 - £134.0 million direct investment
 - £11.7 million co-investments
 - First mortgage, second mortgage and unsecured asset classes
 - Portfolios highly cash generative, performing in line with expectations
 - Average loan duration – 4-6 years
 - Thorough due diligence applied, including portfolio stress testing
- Portfolio investments during 2012 H1
 - RBS unsecured loan portfolio (announced in October) and continued modest forward flow - £43.5 million
 - MBNA closed consumer credit card receivables (announced in December) - £55.7 million

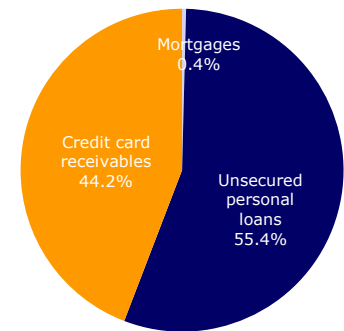
Seeing growing pipeline of large ticket portfolio acquisition opportunities running through 2012 and into next year



Loans managed (number)

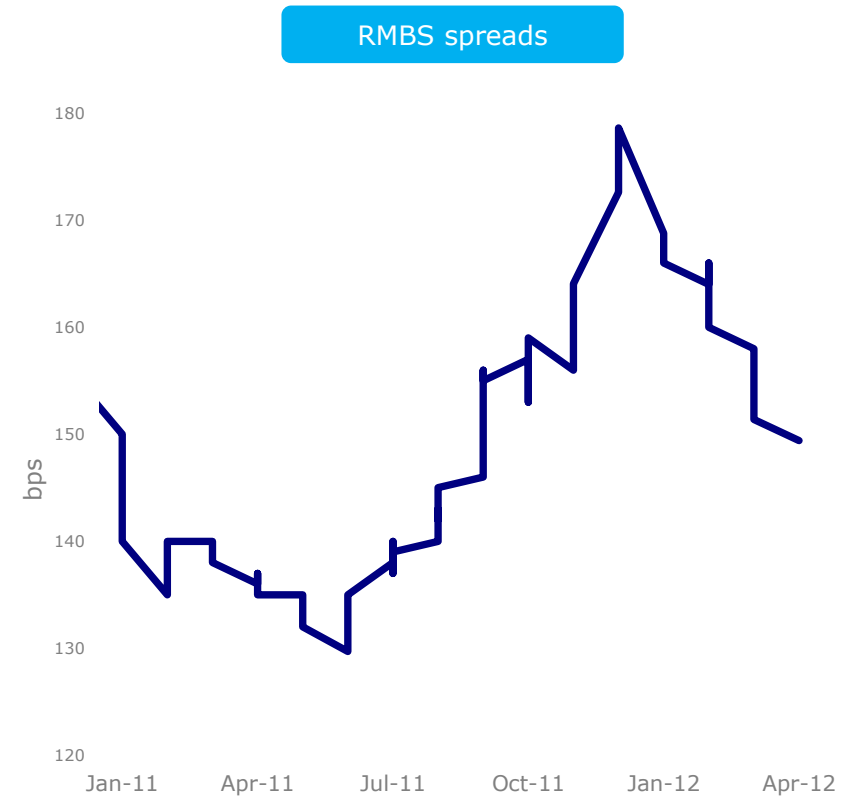


Loans managed (value)



Funding

- Funding conditions improved in 2012 with LTRO
- RMBS spreads improved and remain robust, despite current Eurozone environment
- More deals coming to market including:
 - Santander £2.3 billion May 2012
 - - mezz tranche £231 million May 2012
 - Allied Irish £316.6 million May 2012
 - Skipton £475 million May 2012
 - Santander £775 million April 2012
 - West Bromwich £286.5 million April 2012
 - Coventry £800 million April 2012
 - Nationwide £1.5 billion March 2012
- Extend and expand warehouse capacity
- Corporate bond
 - £110 million outstanding to 2017
 - Re-priced April 2012 at 3.729% fixed
- Improved funding opportunities to support Idem purchases
 - Potential to leverage existing investments
 - Support for new originations



Conclusion

- First-half highlights:
 - RoE progression continues
 - Extent of broader income streams and success of Idem Capital now evident
 - H2 should include full period benefits from earlier acquisitions
- Conscious of wider Eurozone uncertainty
 - Tight risk management policies will continue to be applied
- New lending delivering managed growth
 - Lending book crossover achieved
 - PM16 – first securitisation post-credit crunch
 - RMBS markets appear resilient, warehouse capacity increasing
- Scale of portfolio acquisition opportunities significant

Appendix

Company overview

Paragon overview

- Leading UK specialist lender:
 - Buy-to-let mortgages
 - Consumer loans
- Established loan originator, third party loan servicer and acquirer of loan assets
- FTSE 250 listed
- Over 340,000 Group and third party loan accounts
- Excellent track record of loan asset management:
 - £9.8 billion of assets under management
 - Serviced over 1 million loan accounts
 - All assets funded to maturity

Key facts

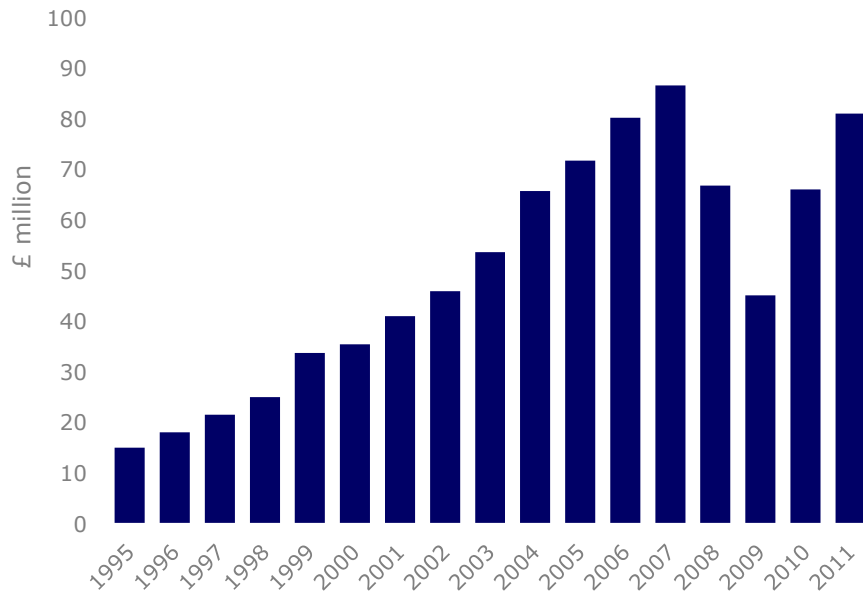
Established:	1985
AUM:	£9.8 billion
Index:	FTSE 250
Code:	PAG.LN
Sector:	FTSE General Finance
Employees:	700+
Location:	HQ: Solihull, West Midlands
Website:	www.paragon-group.co.uk

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
2011:	7 th portfolio acquisition completed – total of £145.7m invested
	First post-credit crunch securitisation successfully launched

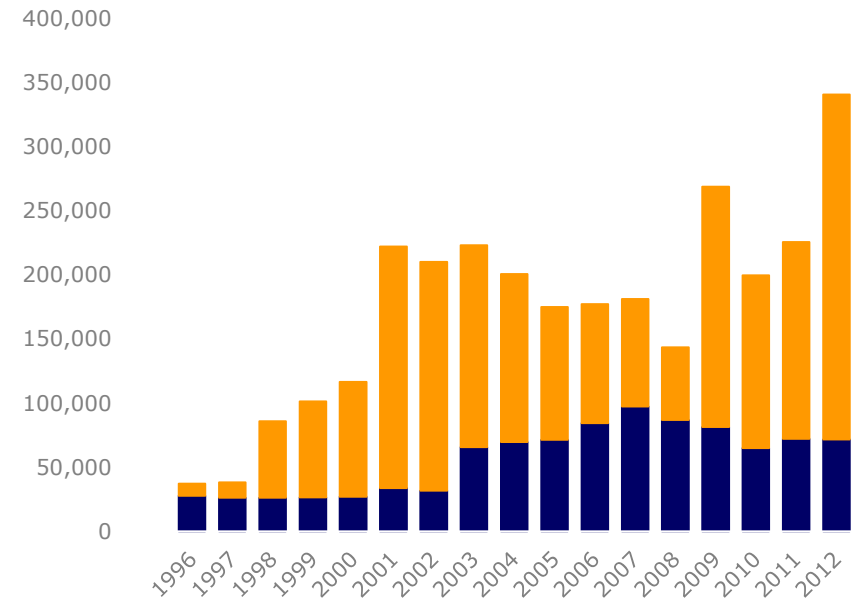
Group overview

Long-term profit trends



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

Total accounts under administration



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

Strategy



Our brands

paragon

SPECIALIST LENDING

SERVICING

PORTFOLIO ACQUISITIONS

paragon mortgages

mortgage trust

paragon personal finance

moorgate loan servicing

idem CAPITAL

paragon

Group activities

Lending

- Over 40,000 landlord customers and £8.2 billion in buy-to-let assets
- 3rd largest buy-to-let lender in the UK
- Resumed new business origination in October 2010 after 2.5 year absence
- Focus on professional landlords:
 - Currently underserved by wider market
 - HMOs, multi-unit blocks, limited companies
- Consumer finance
 - Second mortgages, car, unsecured
 - Focus currently on portfolio acquisition not origination

Loan servicing

- 20 years' experience in loan portfolio management
- Loans managed on behalf of banks, building societies, commercial banks, investment banks, private equity houses and specialist lenders
- Serviced over 1 million accounts
- Strong track record in managing multiple asset classes

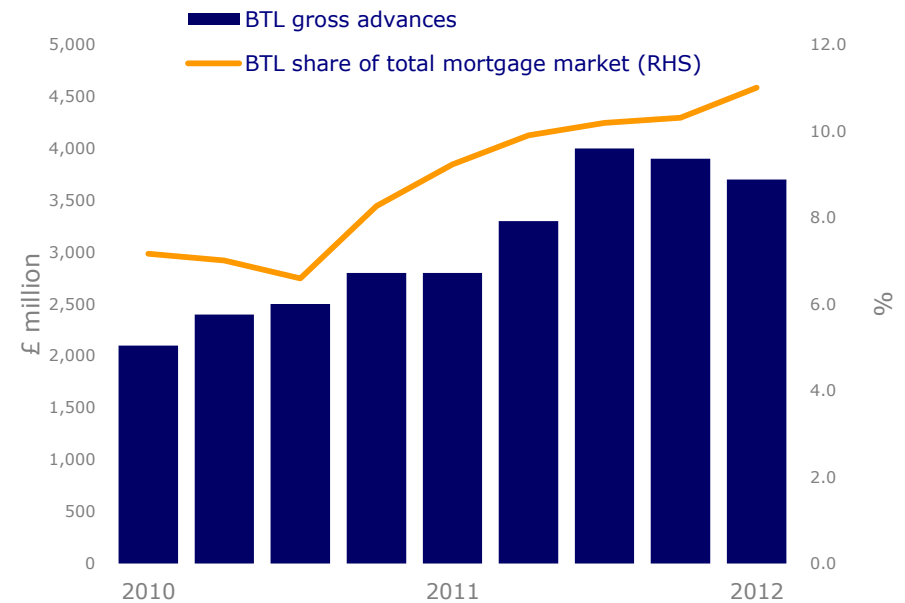
Portfolio acquisitions

- UK's 2nd largest acquirer of consumer debt
- Increasing opportunities as banks' deleverage
- 7 portfolio acquisitions
- £145.7 million invested
- Acquired:
 - First mortgages
 - Second mortgages
 - Unsecured loans
- Servicing and acquisitions contributed 27% to Group profits

Buy-to-let market

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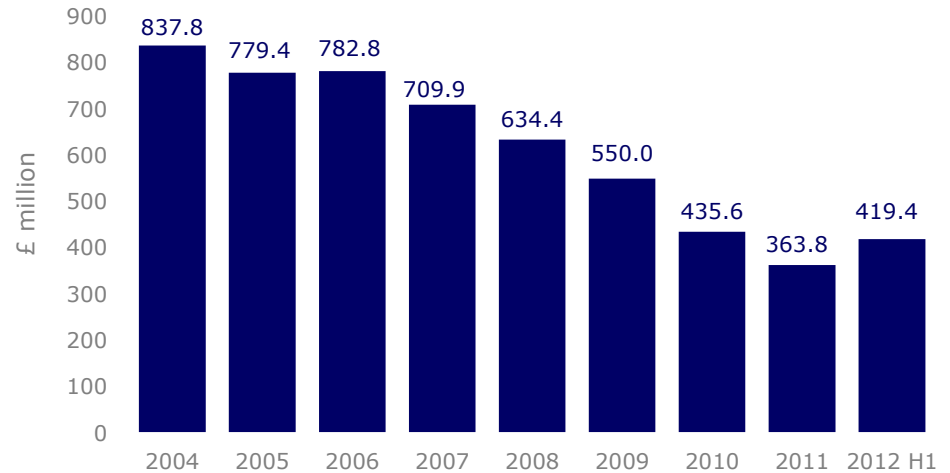
Quarterly BTL lending



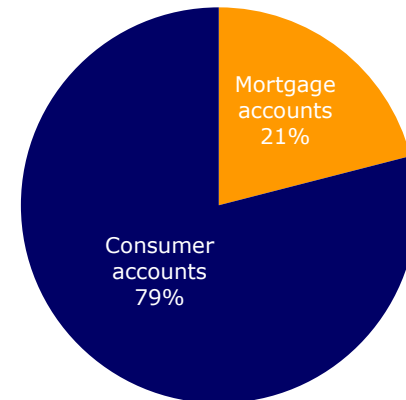
Consumer finance background

- 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 markets once market conditions enable this

Consumer loan assets

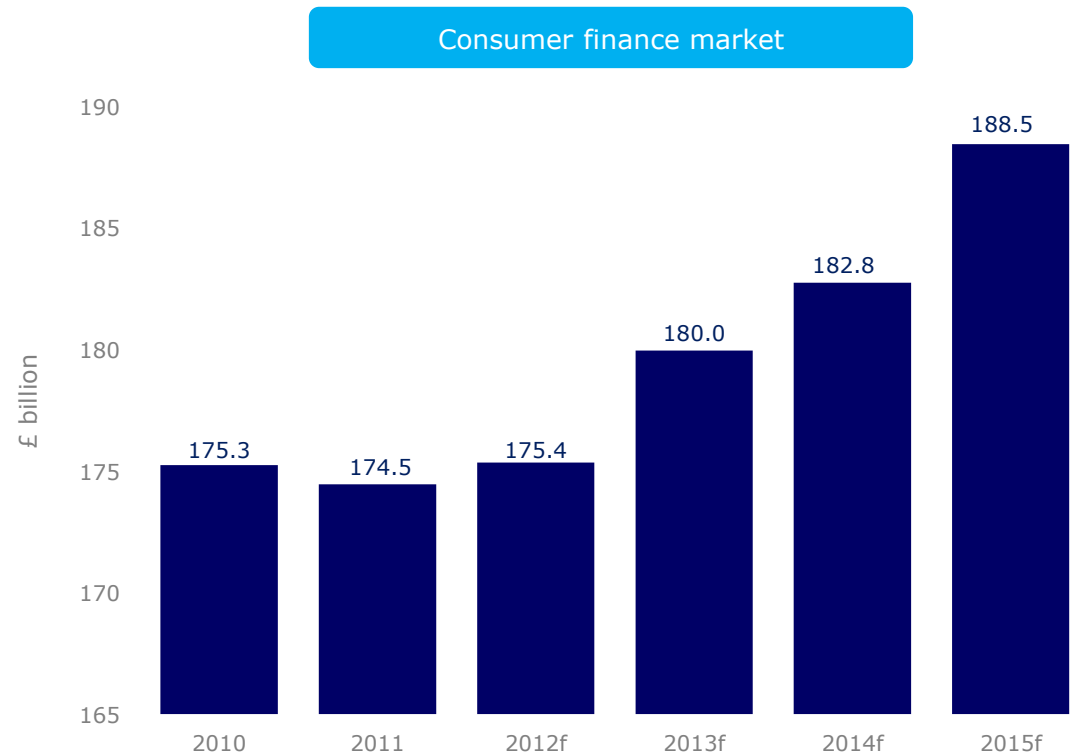


Accounts under management (number)



Consumer finance market

- Consumer finance market (credit cards, unsecured personal loans, car finance, retail finance and overdrafts) totalled £175 billion in 2010
- Market expected to increase by £14 billion to reach £189 billion in 2015
 - BTL market is expected to expand by £12 billion over the same period



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

Idem Capital - investments

- 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
 - Co-investment through non-recourse SPVs, including JVs
 - Any leverage located within SPV

Market opportunities

- Bank de-leveraging being driven by:
 - EU bail out requirements
 - Basel III
 - Revised stress tests, SIFIs, Vickers
 - On-going banking funding pressures
 - General drive for operational and capital efficiency

- 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
 - International Monetary Fund - €2.6 trillion

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