Half-yearly financial results

Six months ended 31 March 2011

The Paragon Group of Companies PLC

Agenda

Section 1	Financial results
Section 2	Strategy

Financial results

Six months to 31 March 2011

Financial highlights

	2010:H1 £m	2011:H1 £m	% change
Pre-tax profit	29.3	**39.5**	34.8%
Of which:			
Exceptionals	0.5	**0.0**	
Fair value	(0.9)	**1.1**	
Underlying profit	29.7	**38.4**	29.3%
Tax rate	28.0%	**27.8%**	
Dividend per share (interim)	1.20p	**1.35p**	12.5%
Earnings per share	7.1p	**9.7p**	36.6%
Shareholder funds @ 31 March	£664.6m	**£715.2m**	7.6%

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H1:H1 analysis

	2010:H1 £m	2011:H1 £m	2010:H1 – 2011:H1 % change
Income	77.4	74.5	(3.7)%
Expenses	(21.0)	(22.8)	8.6%
Impairments	(26.7)	(13.3)	(50.2)%
Cost:income	27.1%	30.6%	
Underlying profit	**29.7**	**38.4**	

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H2:H1 analysis

	2010:H1 £m	2010:H2 £m	2011:H1 £m	2010:H1 – 2011:H1 % change	2010:H2 – 2011:H1 % change
Income	77.4	70.5	74.5	(3.7)%	5.7%
Expenses	(21.0)	(21.6)	(22.8)	8.6%	5.6%
Impairments	(26.7)	(12.5)	(13.3)	(50.2)%	6.4%
Cost:income	27.1%	30.6%	30.6%		
Underlying profit	**29.7**	**36.4**	**38.4**		

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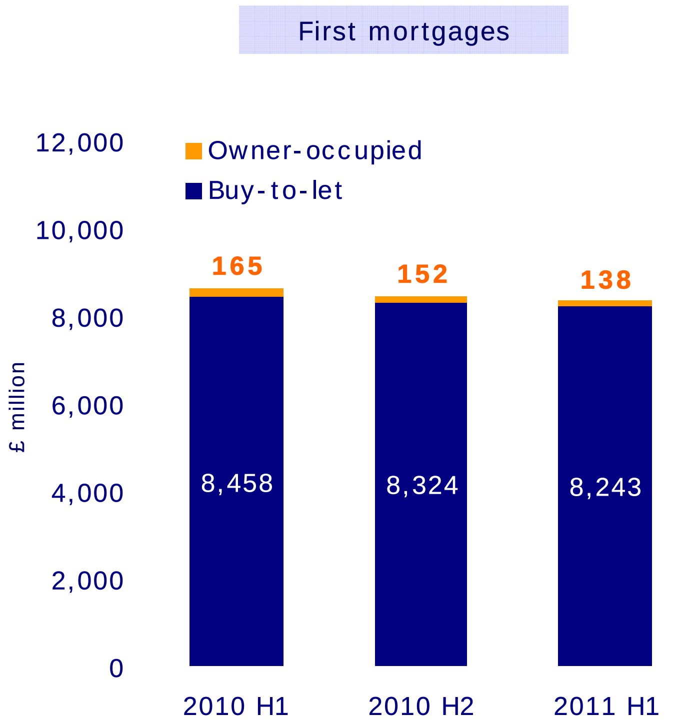
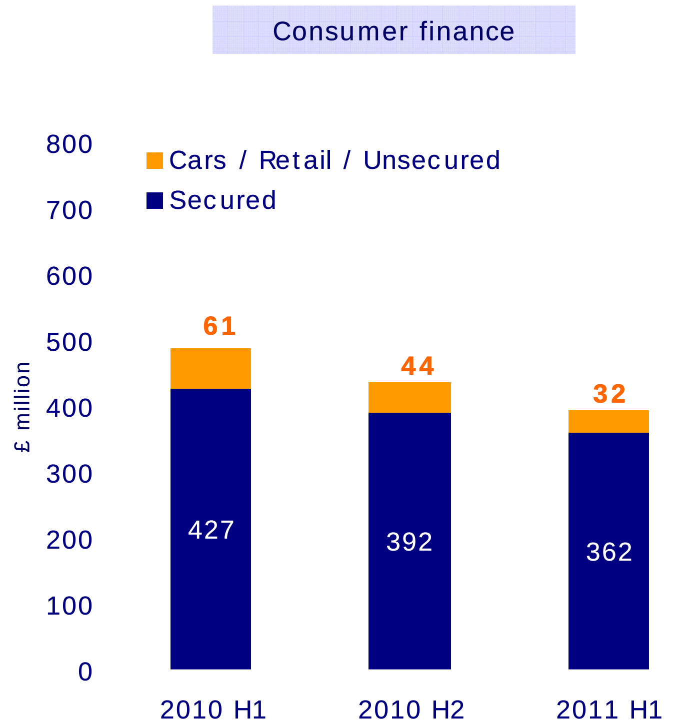
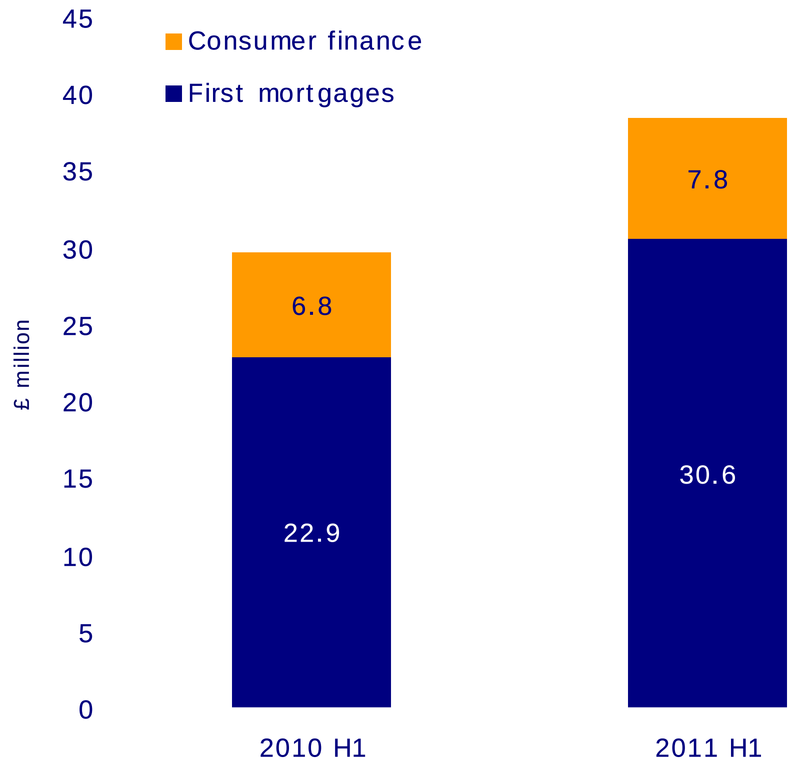
Segmental loan assets

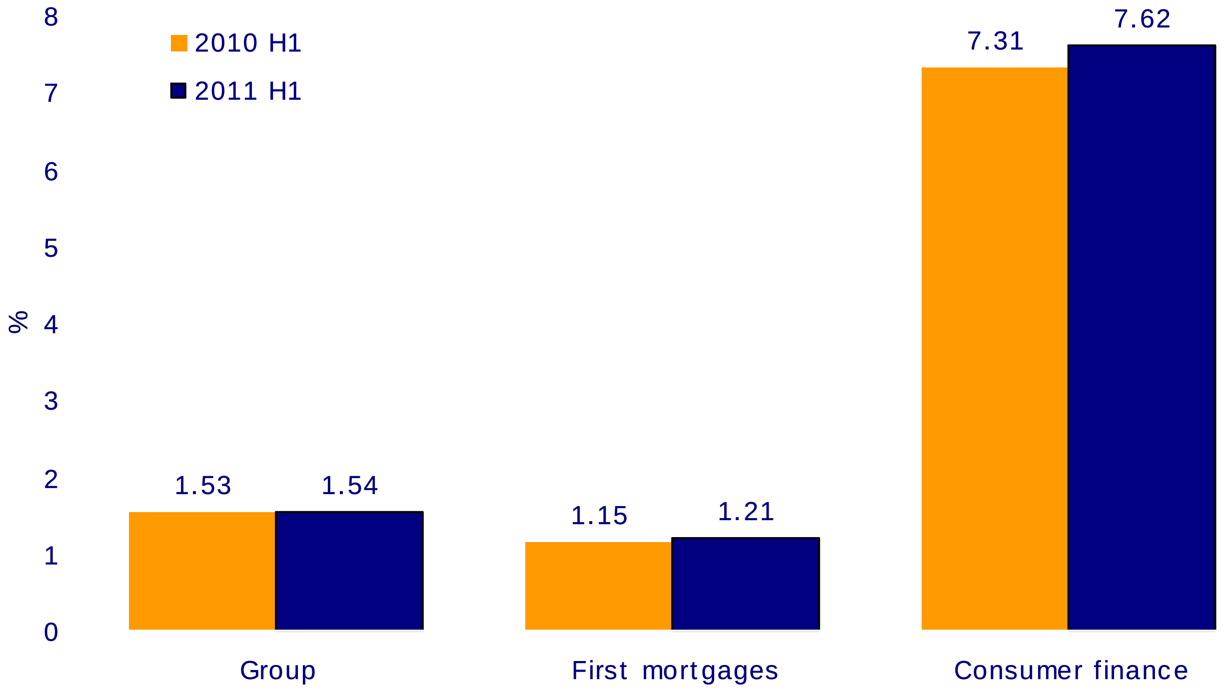




Segmental profit analysis



Net interest margin



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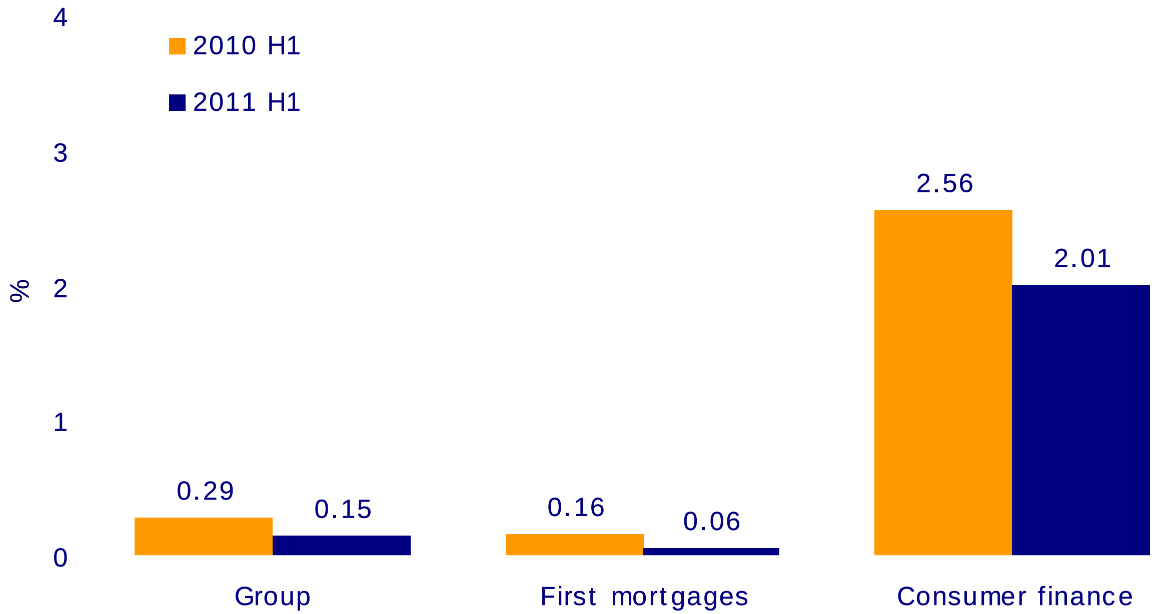
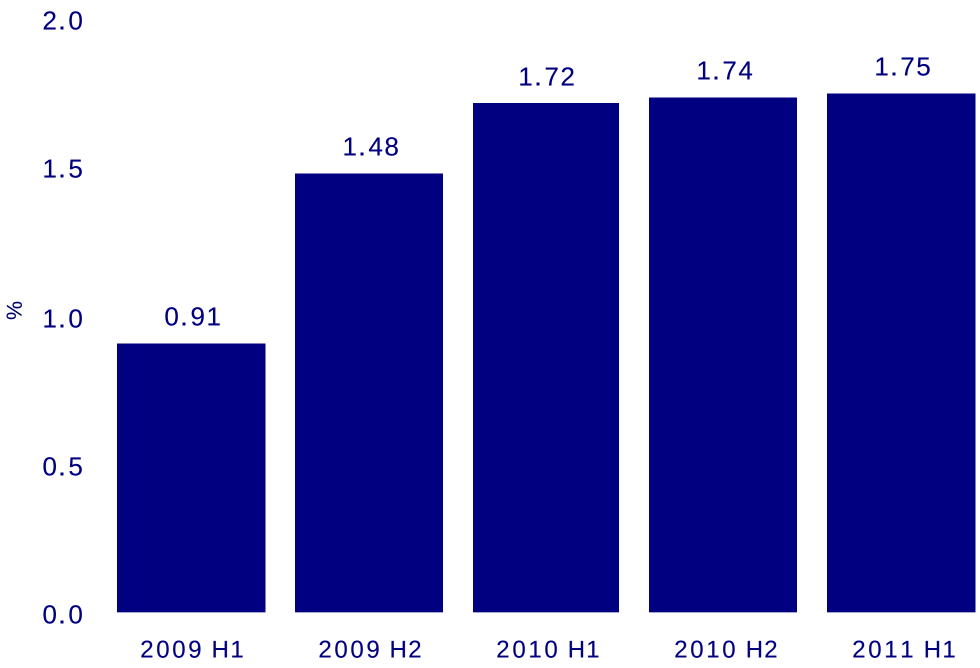
Impairment charge as % of total loan assets



Cash margins

- Free cash balances at 31 March 2011: £179.7 million (2010 H1: £128.1 million)



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Strategy

Strategic objectives

Strategic objectives

- **Optimise embedded value**
- **New lending**
- **Develop new income sources**

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Strategic objectives

Strategic objectives

Optimise embedded value

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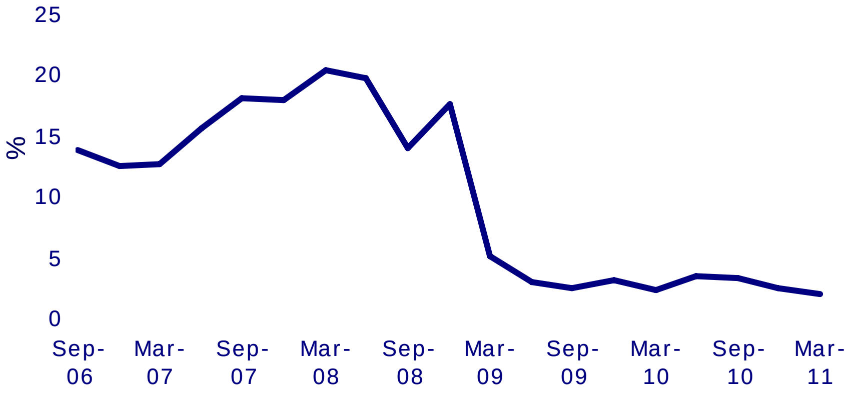
Customer retention

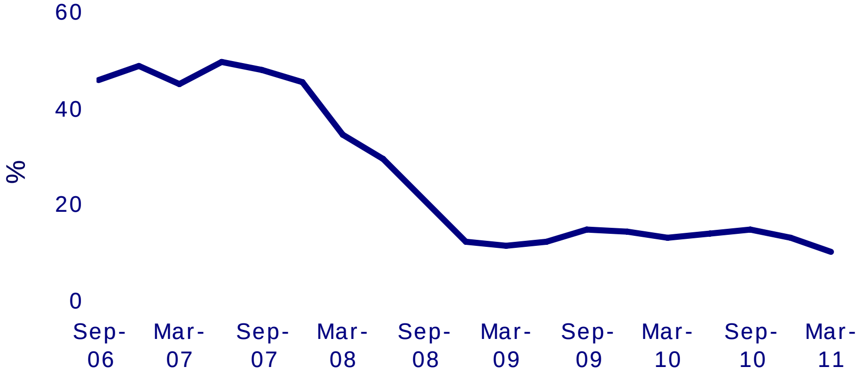
Optimise embedded value

- Buy-to-let redemption rates remain below 3% (historically c20%+)
- Product availability in market remains restricted
- Paragon's pre-credit crunch products highly competitive
- Landlords retain long-term investment horizon
- Strong tenant demand
- Rents continue to rise

Paragon buy-to-let redemption rate



Paragon secured redemption rate

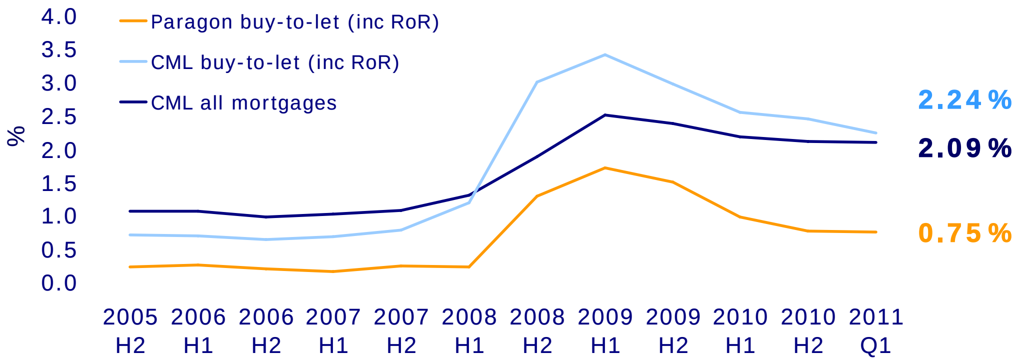


Credit quality

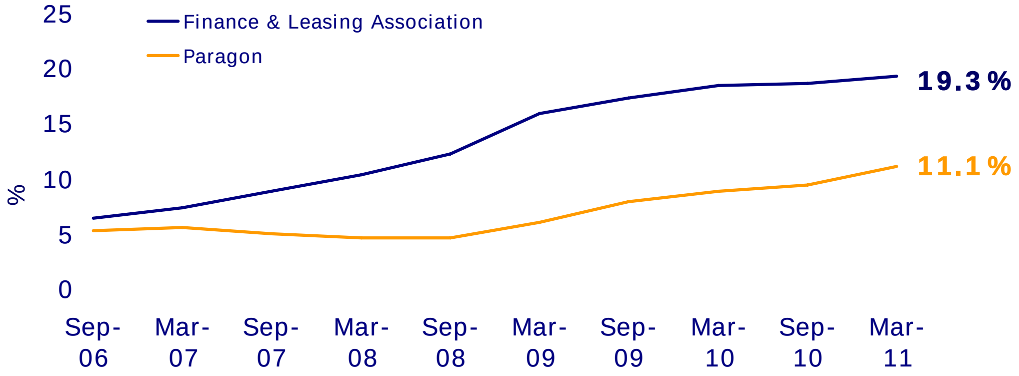
Optimise embedded value

- Paragon assets continue to significantly outperform wider industry
  - Buy-to-let 3 months + arrears fell to 75 bp
  - 88% buy-to-let 3 months + arrears are subject to Receiver of Rent
- Second charge arrears cash collections remain strong

BTL 3 months + arrears



Second charge 2 months + arrears



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Source: Council of Mortgage Lenders / Finance & Leasing Association / Paragon

Impact of rising interest rates

Optimise embedded value

- Interest rate outlook
  - Base rate at historic low, but will inevitably rise
  - Likely to remain low given fiscal tightening and recovery concerns
- Portfolio profile
  - Existing buy-to-let portfolio originated when average base rate = 4.6%
  - Tenant demand and rental yields remain strong
  - Current interest to rent cover ratio (ICR) c300% (c170% @ origination)
- Impact of interest rates on net assets
  - Capital invested in financial assets largely held in cash
  - Return will rise as interest rates rise
  - Every 1% interest rate rise = c£7 million in net interest income

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Regulation

Optimise embedded value

- Developing regulatory environment
- Second charge mortgages to be regulated by FSA – however, significant delays expected
- Further MMR consultation expected this Summer
- Will include increased prudential requirements for non-deposit taking lenders offering regulated mortgages
  - Capital requirement not material
  - No specific liquidity test
- Buy-to-let
  - HM Treasury regards regulation of buy-to-let as inappropriate
  - EU Directive relating to residential property in drafting stage
  - Unclear whether EU regulation will be extended to buy-to-let
- Paragon already FSA authorised for mortgages and insurance; well placed to be fully compliant with likely regulatory framework

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Strategic objectives

Strategic objectives

New lending

New lending

New lending

- New lending commenced 28 September 2010
- Significant focus during initial phase towards re-establishing brand and distribution
  - Ongoing intermediary roll-out programme
  - Major networks being engaged
  - Online distribution recently launched
  - Deliberately very tight credit standards at launch
- Delivery through two distinct brands focussing on experienced investors
  - Paragon Mortgages targeting large-scale landlords
  - Mortgage Trust, re-launched April 2011, targeting mainstream market
- High quality new originations
  - Average LTV 68.9%
  - Average ICR 159.7%
- Strong growth in H2 lending expected
  - Significant conversion improvements since launch
  - Pipeline now £94.7 million

Buy-to-let	At 31-03-11 £m	At 20-05-11 £m
Advances	29.6	50.2
Pipeline	92.0	94.7
Redemptions	90.4	112.9

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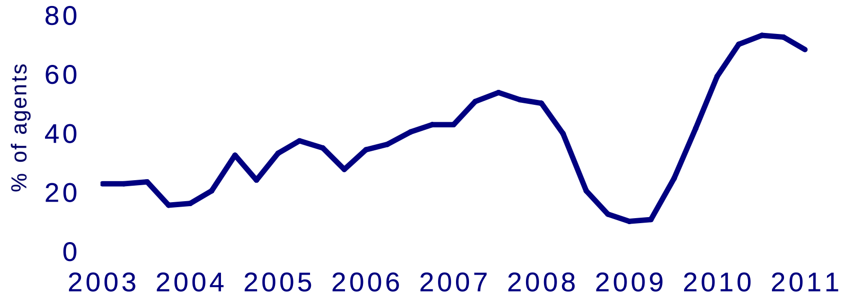
Balance of supply and demand

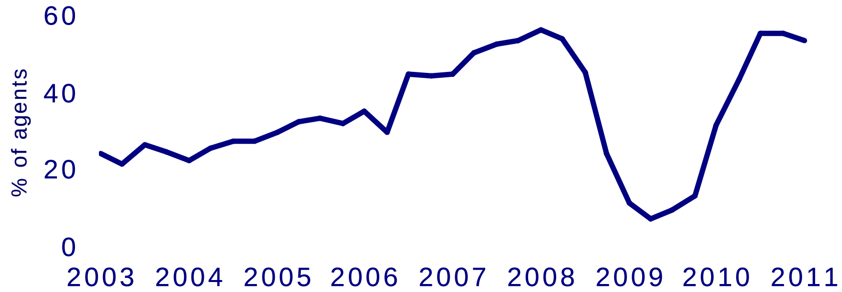
New lending

- Demand for private rented property strong
  - 68% of ARLA agents reported more tenants than properties in Q1 2011
  - Proportion of ARLA agents reporting increase in achievable rent levels has risen sharply

More tenants than properties



Increase in rent levels



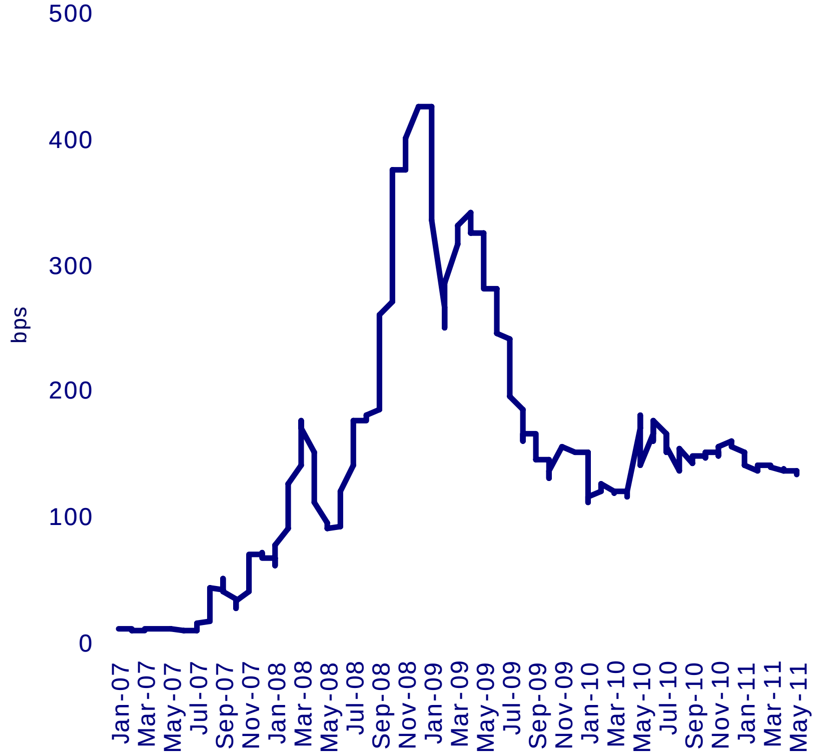
Source: Association of Residential Letting Agents

New lending - funding

New lending

- £200 million warehouse facility with Macquarie
- RMBS market displayed significant improvement in 2010
- Momentum maintained in 2011 despite Eurozone crisis
  - February:
    - Santander - £2.0 billion
  - March:
    - Skipton - £1.2 billion
    - Lloyds - £1.3 billion
  - April:
    - Northern Rock - £1.3 billion
    - Lloyds - £3.7 billion
  - May:
    - Santander - £3.75 billion
- Securitisation plans remain on track

RMBS spreads



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Source: Royal Bank of Scotland

Strategic objectives

Strategic objectives

Develop new income sources

New sources of income

Develop new income sources

- New initiatives (loan servicing, portfolio acquisitions) continue to make good progress
- Contributed £3.5 million – up 46% on H1:2010
- 52% of accounts under management serviced on behalf of 3rd parties
  - Majority consumer finance loans
- Additional 50,000 loan accounts serviced from July 2011

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Idem Capital

Develop new income sources

- Further portfolio investment
  - c£7 million investment
  - 50,000 unsecured loan accounts
  - Acquired in partnership with 3rd party investment company
- Total investment to date
  - £30.1 million portfolio purchase investment
  - First mortgage, second mortgage and unsecured asset classes
  - Portfolios performing well and exceeding return target (IRR 15%)
  - Profit generation broadly equivalent to originating c£600 million mortgages
- Further portfolios currently under review
- Substantial number of UK banking assets regarded as non-core
  - £250 billion of all UK mortgage assets
  - Early deals more likely to be consumer finance assets
  - Operational and technology capacity exists
  - Capital capacity exists

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idem CAPITAL

Capital management

Develop new income sources

- Progressive dividend policy, c10% growth per annum
- Capital available to support:
  - Working capital requirements
  - New lending programme
  - Acquisition of loan portfolios
- Growth and investment plans will achieve greater capital optimisation, enhancing RoE

Conclusion

- Existing portfolio performing well
    - Excellent profits
    - Strong cash flow position
- Successful new lending re-launch, flow will build over time
    - Private Rented Sector strong with good long-term prospects
- Exciting portfolio acquisition opportunities to deploy capital at target IRRs

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