

The Paragon Group of Companies PLC

Half-yearly financial results

Six months ended 31 March 2009



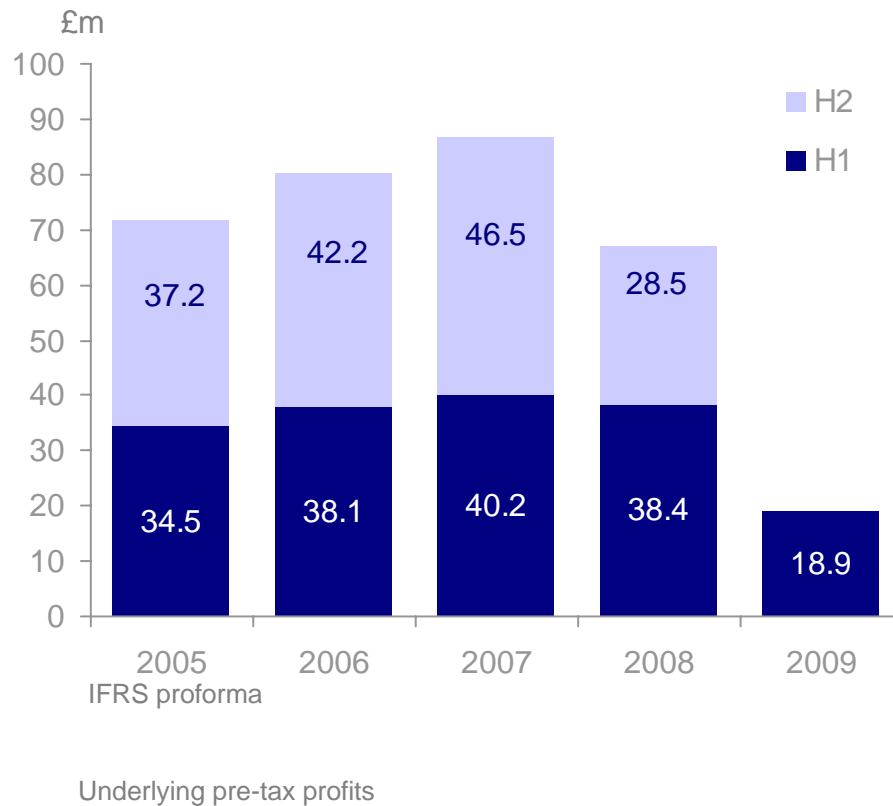
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| | - Asset quality |
| | - Funding |
| | - New initiatives |

Section 1

Financial results

Six months ended 31 March 2009

Group profits

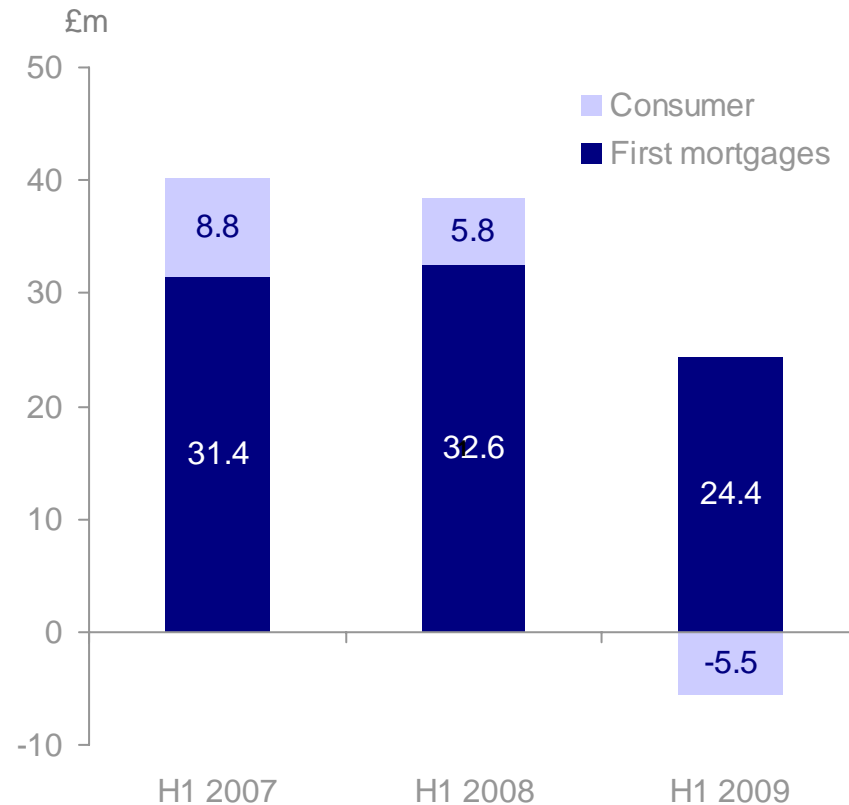


- Effective tax rate 29.6% (2008 H1: 30.3%)
- Interim dividend 1.1p per share (2008 H1: 1.0p)
- Shareholders' funds £625.5m (2008 H1: £612.8m)

Segmental profit analysis



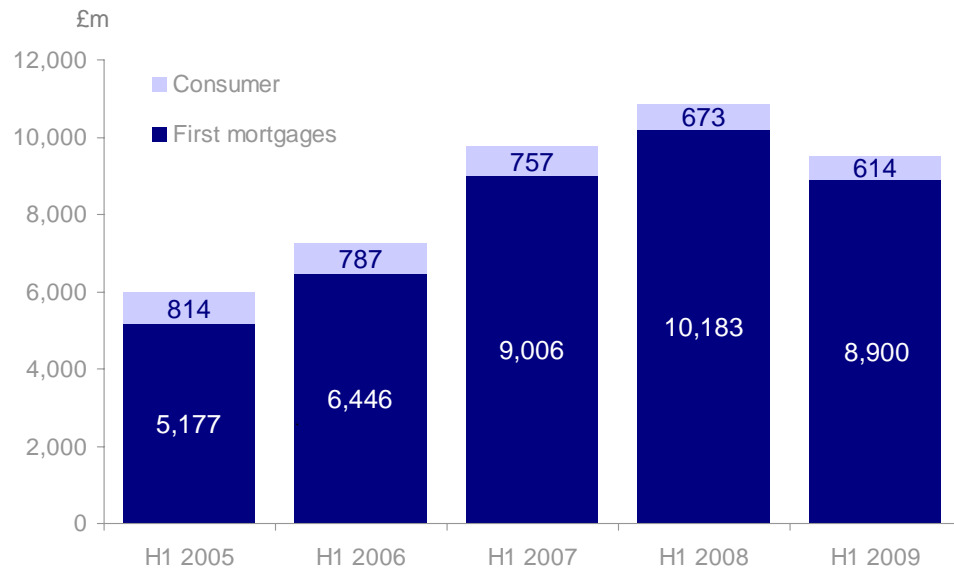
- **First mortgages**
 - Robust performance despite challenging operating environment
 - Increase in impairment due to rising arrears
- **Consumer**
 - Increase in impairment due to reduction in asset values
 - Significant reduction in new business income



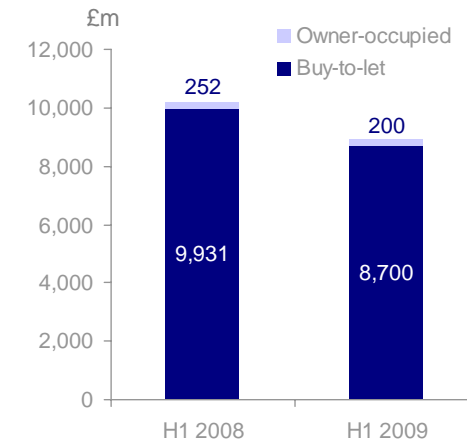
Underlying basis

- 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

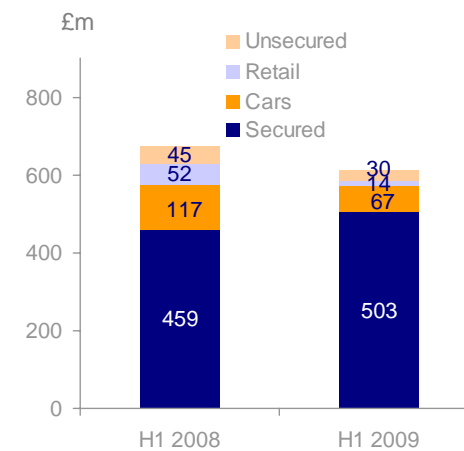
Loan assets



First mortgages



Consumer

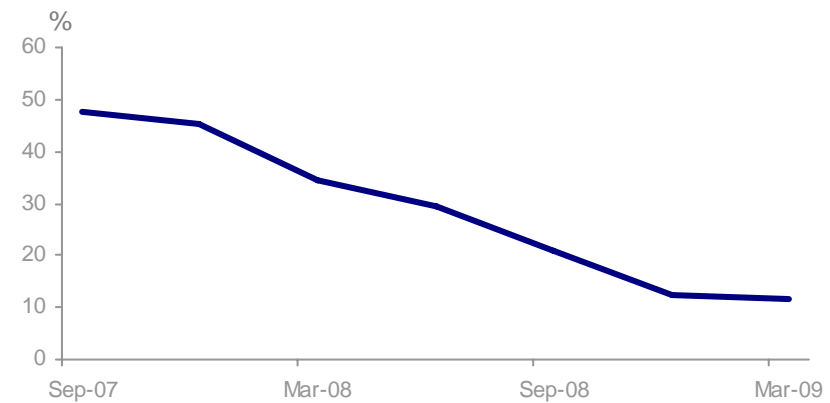


- Redemption rates have fallen sharply
- Alternative products in the market remain restricted
- Reversionary rates compare favourably to current market rates

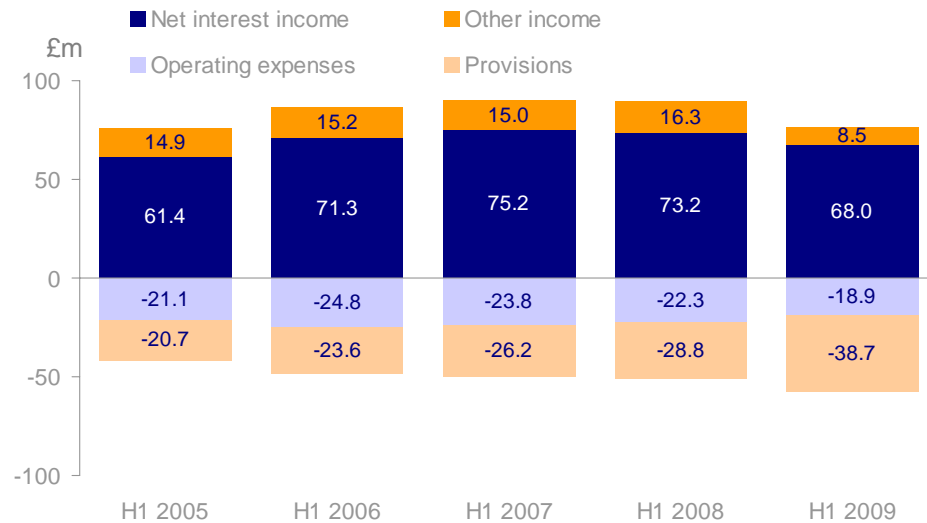
Paragon buy-to-let redemption rates



Secured redemption rate

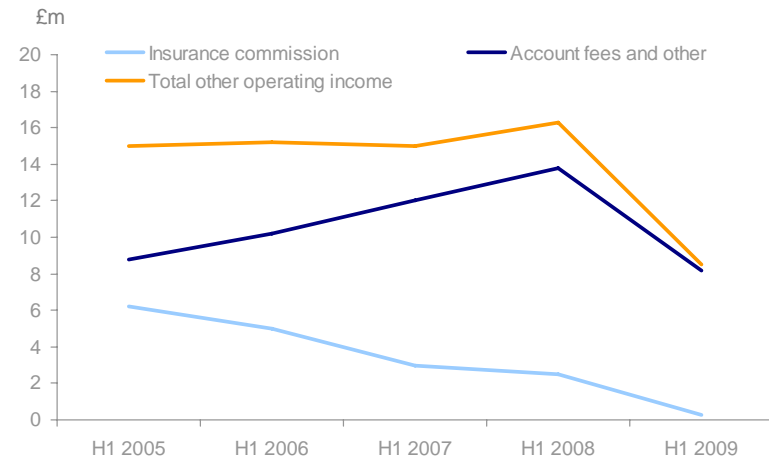


Operating profits (1)

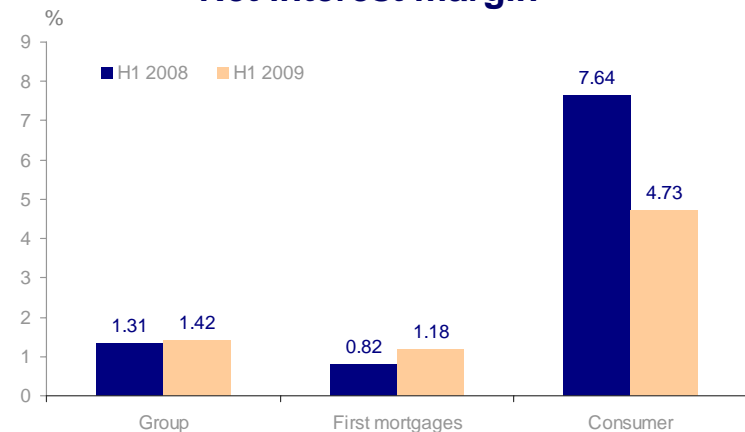


Underlying basis

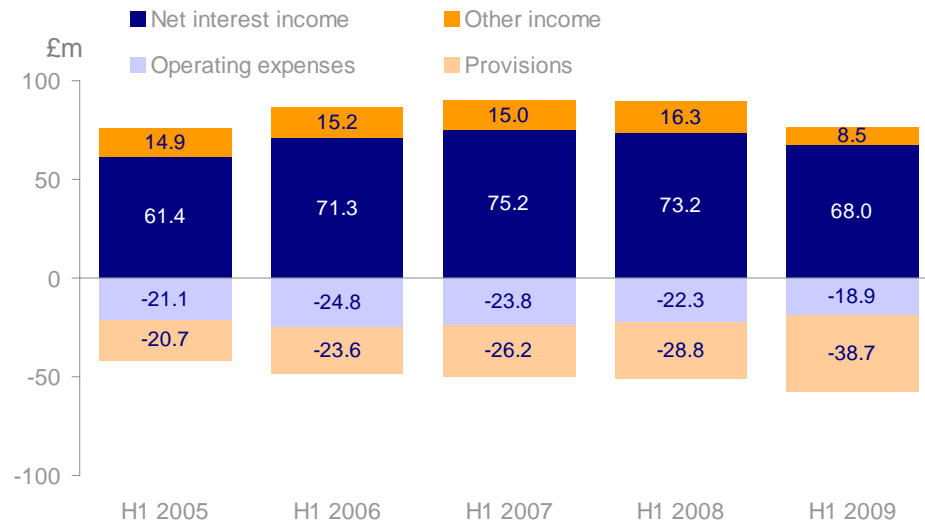
Other operating income



Net interest margin

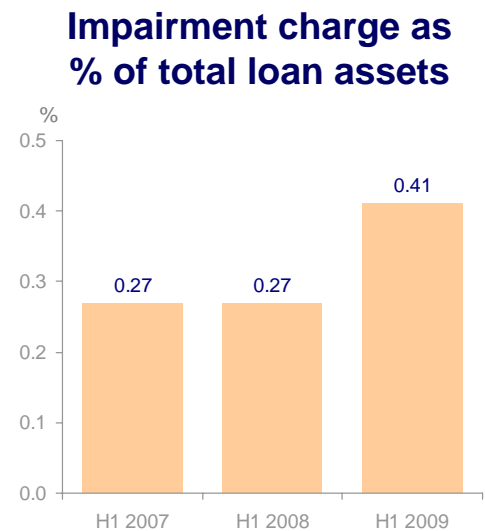
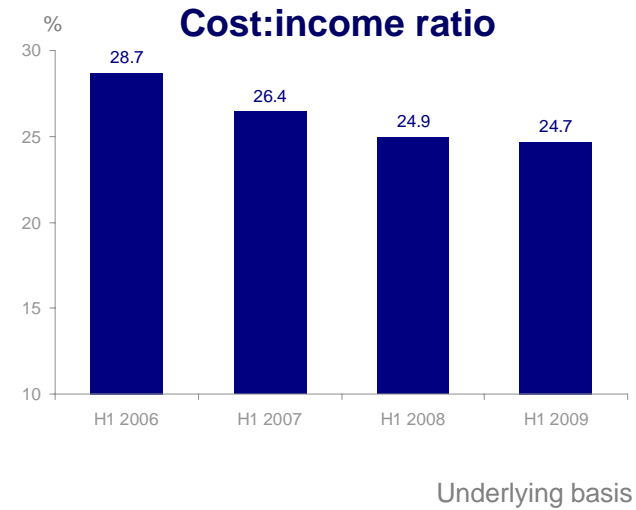


Operating profits (2)



- 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

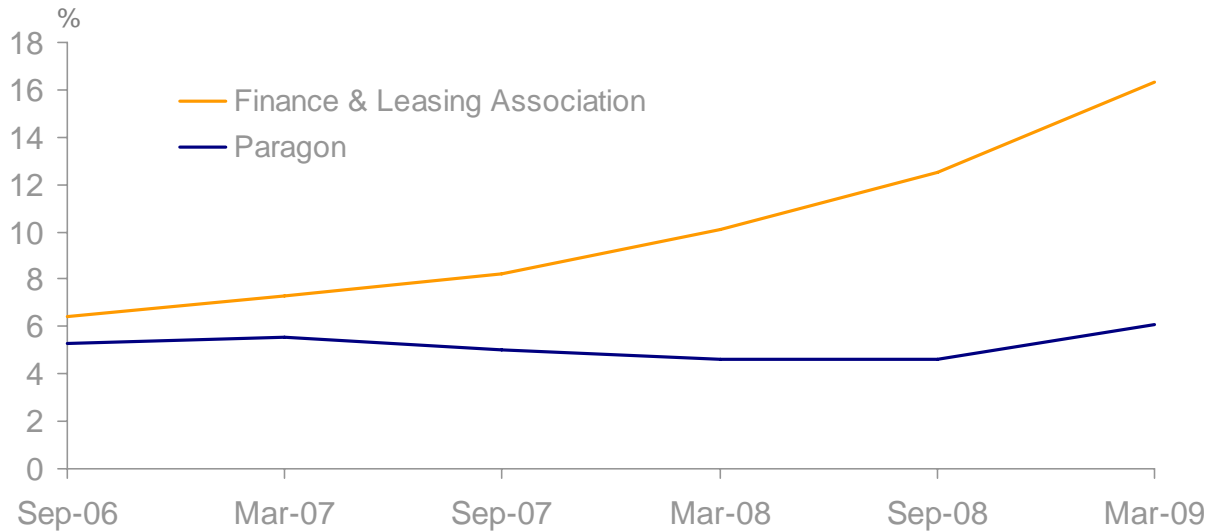
- Economy likely to remain challenging for some time, although early signs of stabilisation emerging
- Rising unemployment and constrained earnings growth likely to continue to impact arrears levels
- House price correction continues although early indications of market activity
- Government initiatives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

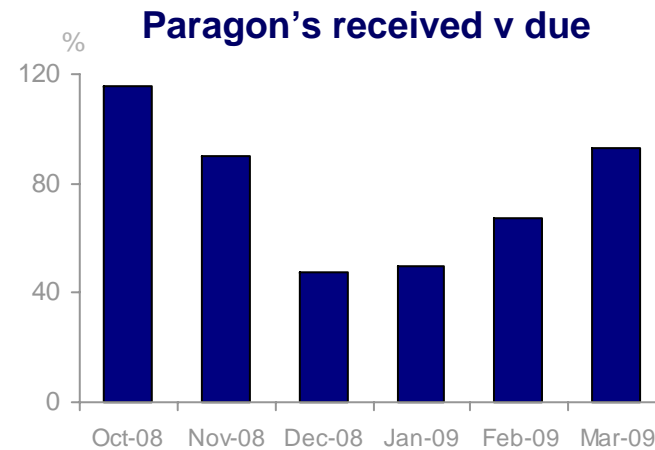
- Resource focussed on collections
 - Capacity significantly enhanced
 - Pre-arrears targeting
 - In-house collections improving cash collections and received v due
 - Redbrick – strong rental management and receiver of rent capability
- Redbrick Receiver of Rent process proving to be effective tool 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



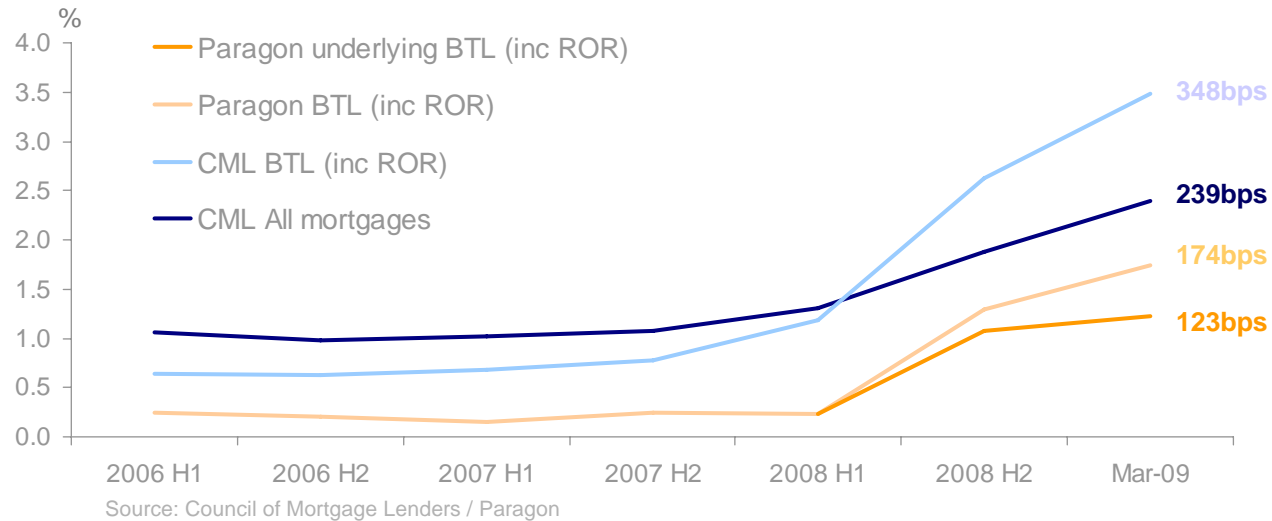
Source: Finance & Leasing Association / Paragon

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



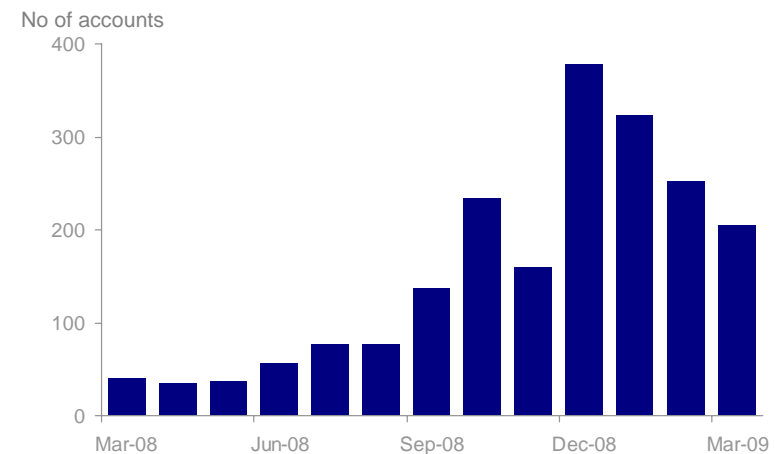
Buy-to-let arrears

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

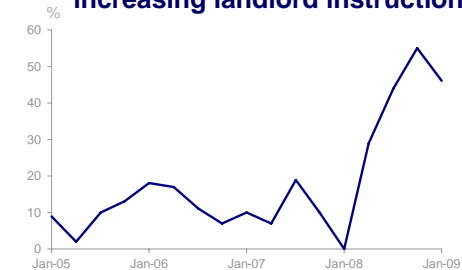
- 33% planning to acquire further properties over next 12 months (ARLA)
- Only 0.2% planning to sell at end of tenancy (RICS)

Balance of surveyors reporting increasing tenant demand



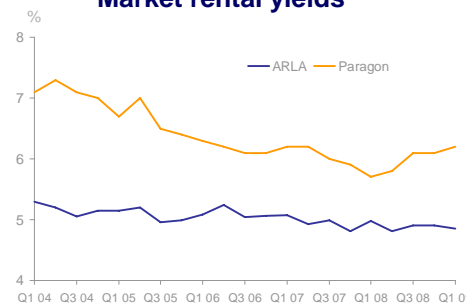
Source: RICS

Balance of surveyors reporting increasing landlord instructions



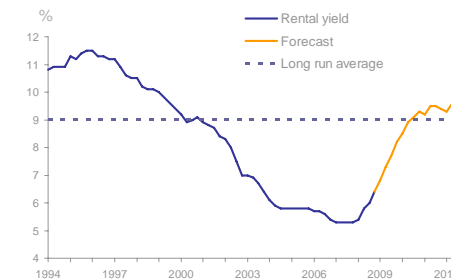
Source: RICS

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

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