

The Paragon Group of Companies PLC

Results Presentation

Year ended 30 September 2008

Agenda



Section 1	2008 priorities
Section 2	Financial results
Section 3	Outlook

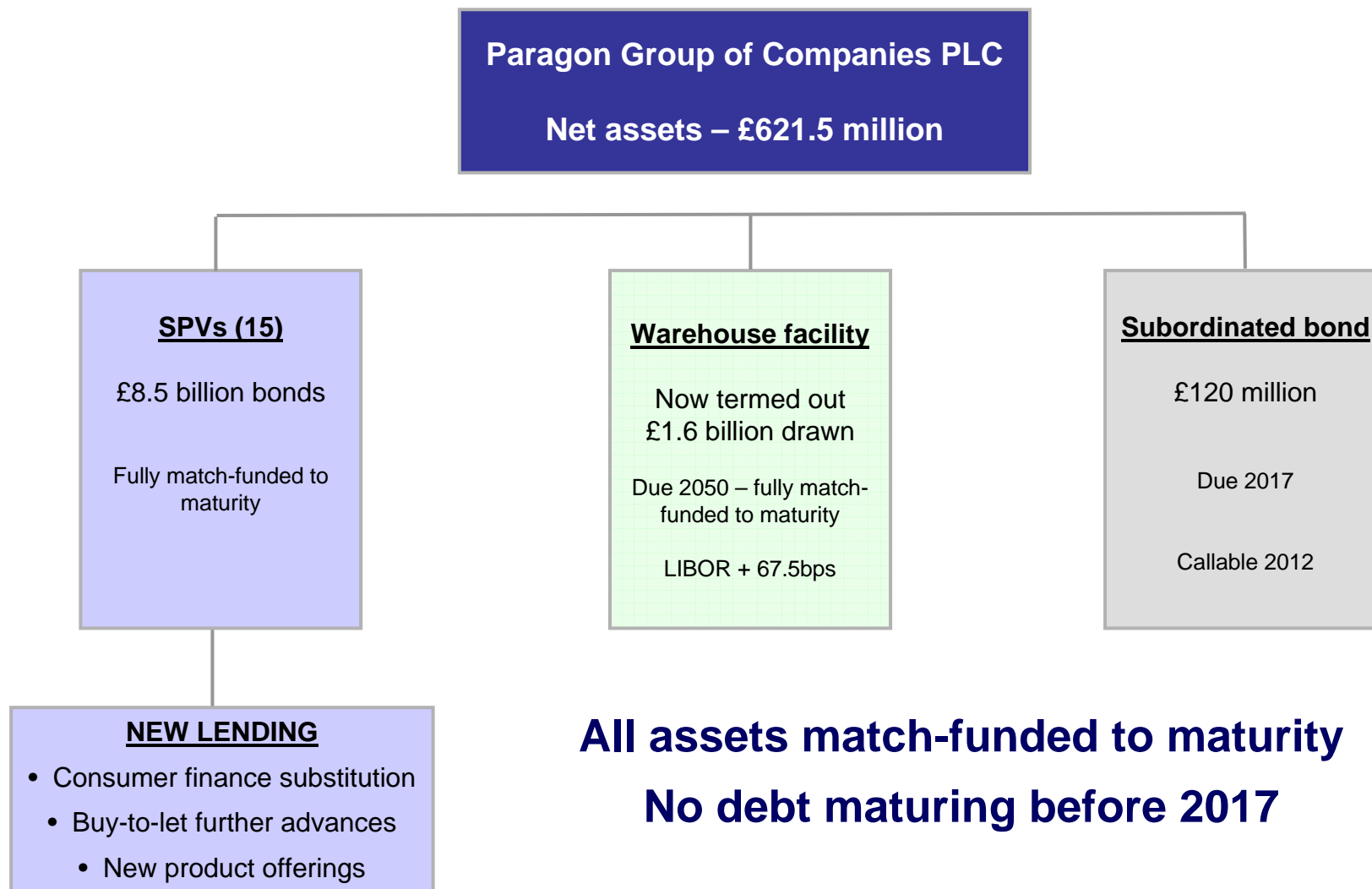
Section 1

2008 priorities

2008 priorities



- Our focus was to protect the embedded value and manage the business through the credit crunch
- Objectives:
 - Stabilise funding position – achieved in February:
 - Rights issue raised £287 million
 - Repaid £280 million banking syndicate
 - Warehouse fully termed out
 - All assets match-funded



2008 priorities (continued)



- Our focus was to protect the embedded value and manage the business through the credit crunch
- Objectives:
 - **Stabilise funding position – achieved in February:**
 - Rights issue raised £287 million
 - Repaid £280 million banking syndicate
 - Warehouse fully termed out
 - All assets match-funded
 - **Protect franchise:**
 - Enhanced customer retention management
 - Landlord services developed
 - **Manage costs:**
 - 30% reduction in headcount
 - Costs 21% lower
 - Cost:income ratio 22.6%, lowest in UK sector
 - Withdrawal from car and retail markets
 - £10 billion assets under management
 - **Explore strategic options**

Takeover approaches



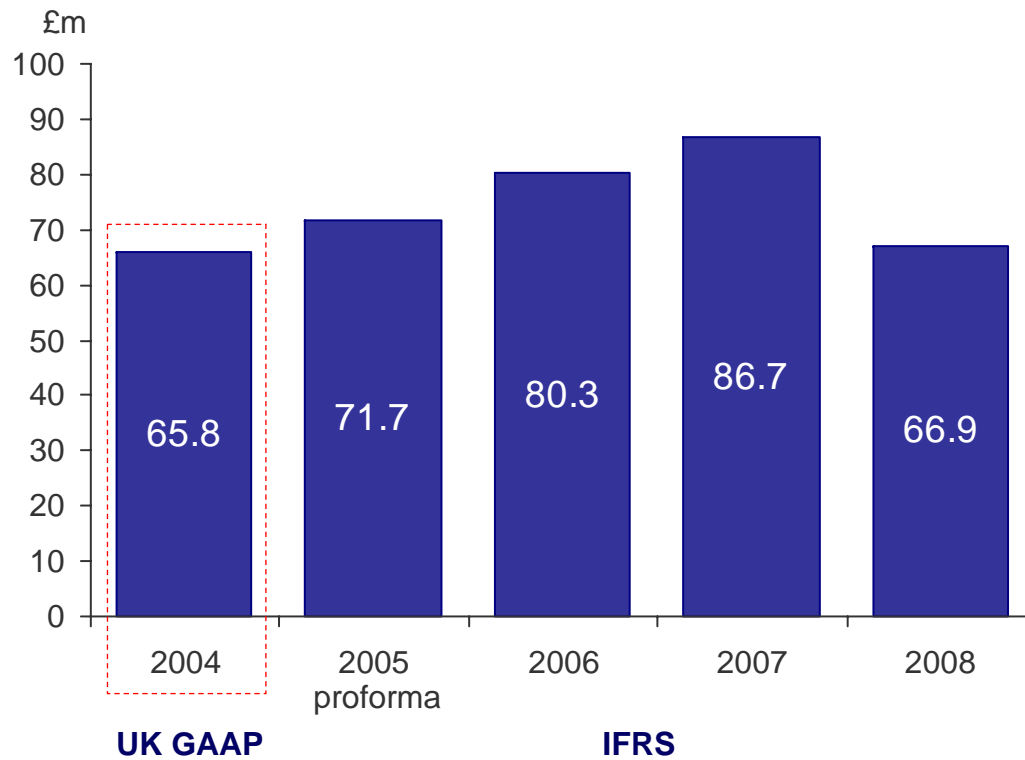
- Evaluated strategic options
- Number of approaches received
- Certain due diligence materials provided
- Proposal received
- Advisers and shareholders consulted
- Rejected by the Board
- Assessed against the embedded value of the business

Section 2

Financial results

For the year ended 30 September 2008

Operating profit



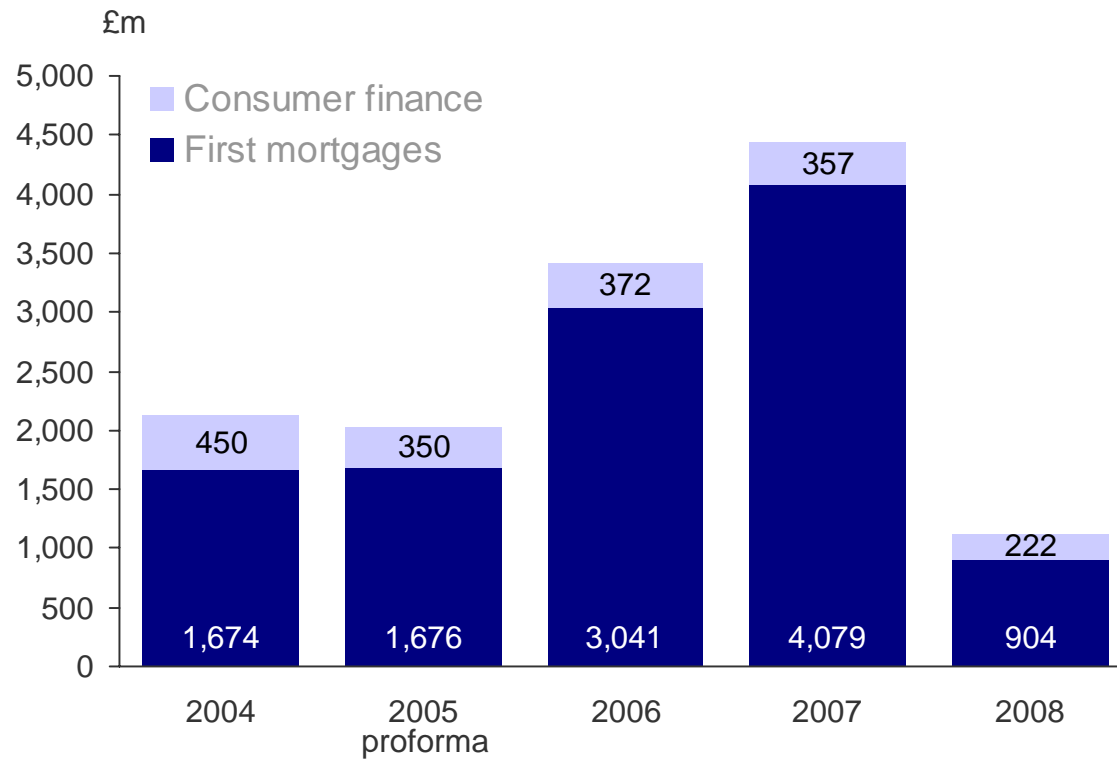
- Effective tax rate 30.9%
- Final dividend 2p
Total dividend 3p
- Shareholders' funds
£621.5m (2007: £313.3m)

Exceptional costs



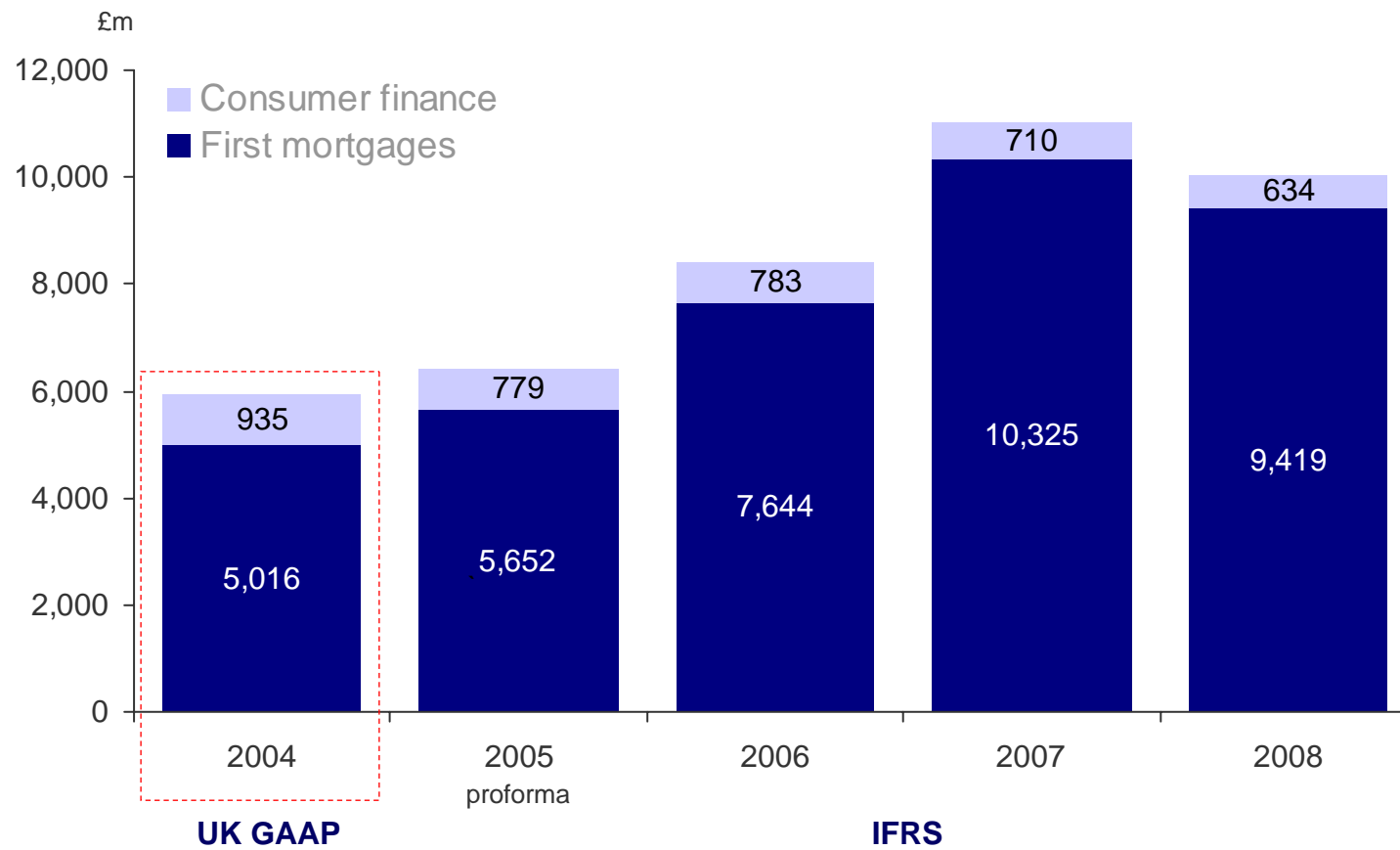
- £7.8 million total:
 - Standby underwriting fees £4.1 million
 - Redundancies £1.6 million
 - Other professional costs £2.1 million

New lending



- First mortgage lending managed down in H1:08
- Sales Aid Finance originations ceased in H1:08
- Secured originations modest growth H2:08

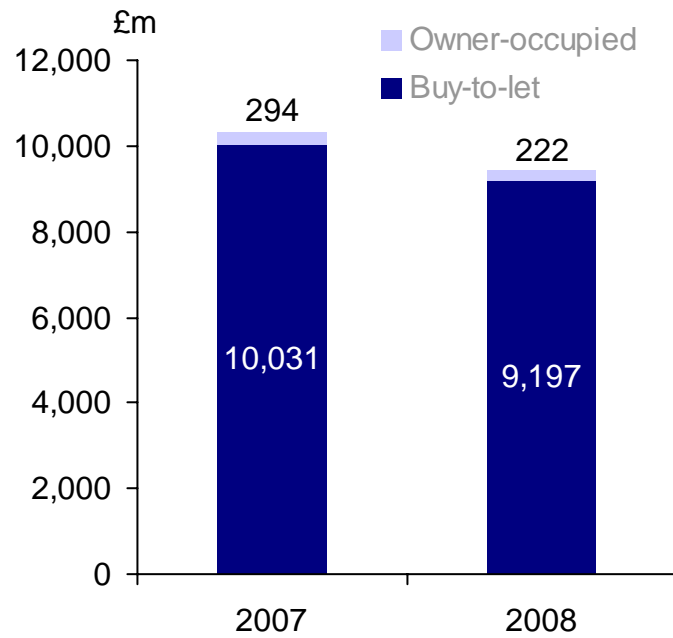
Loan assets



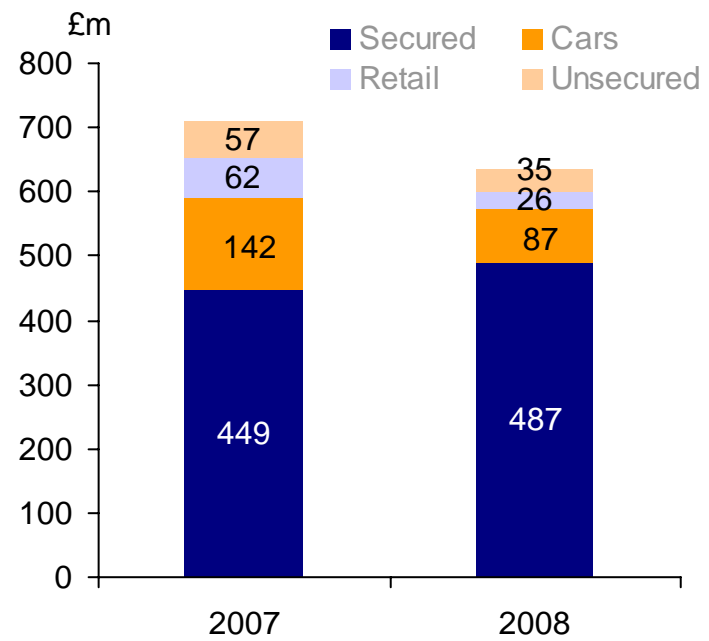
Segmental loan assets



First mortgages

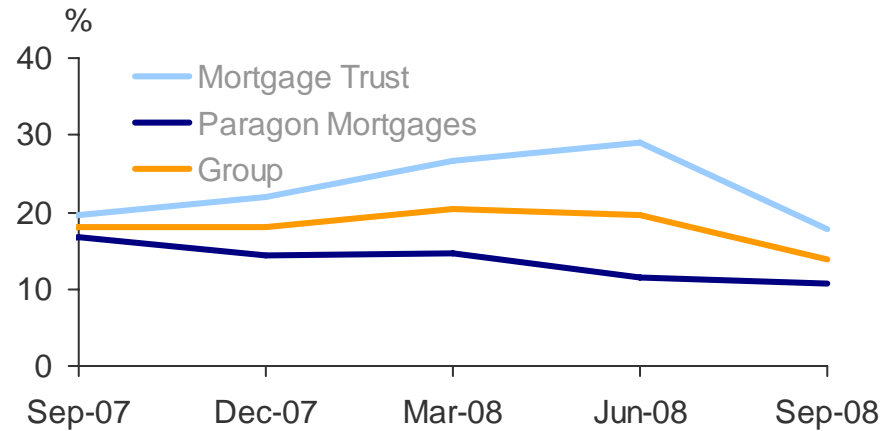


Consumer finance

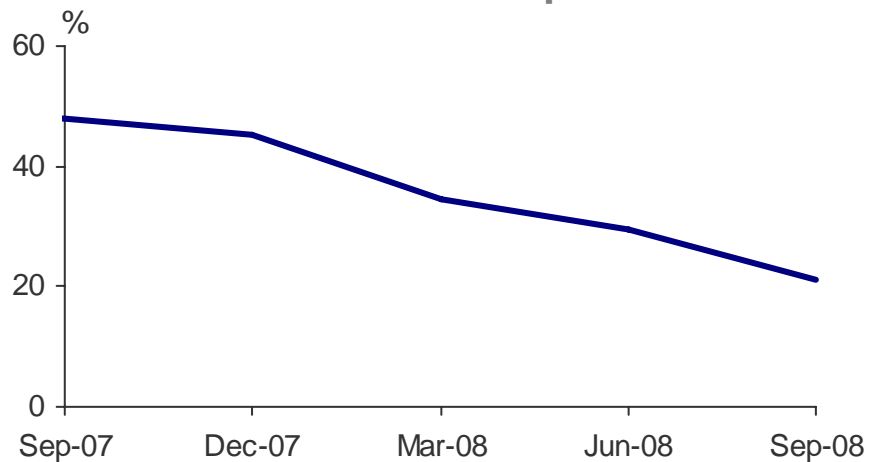


- Proportion of landlords opting to sell property at the end of tenancy is lowest on record at 0.5% (RICS Q3 2008)
- Reduced level of alternative products in market
- Customer retention a key priority

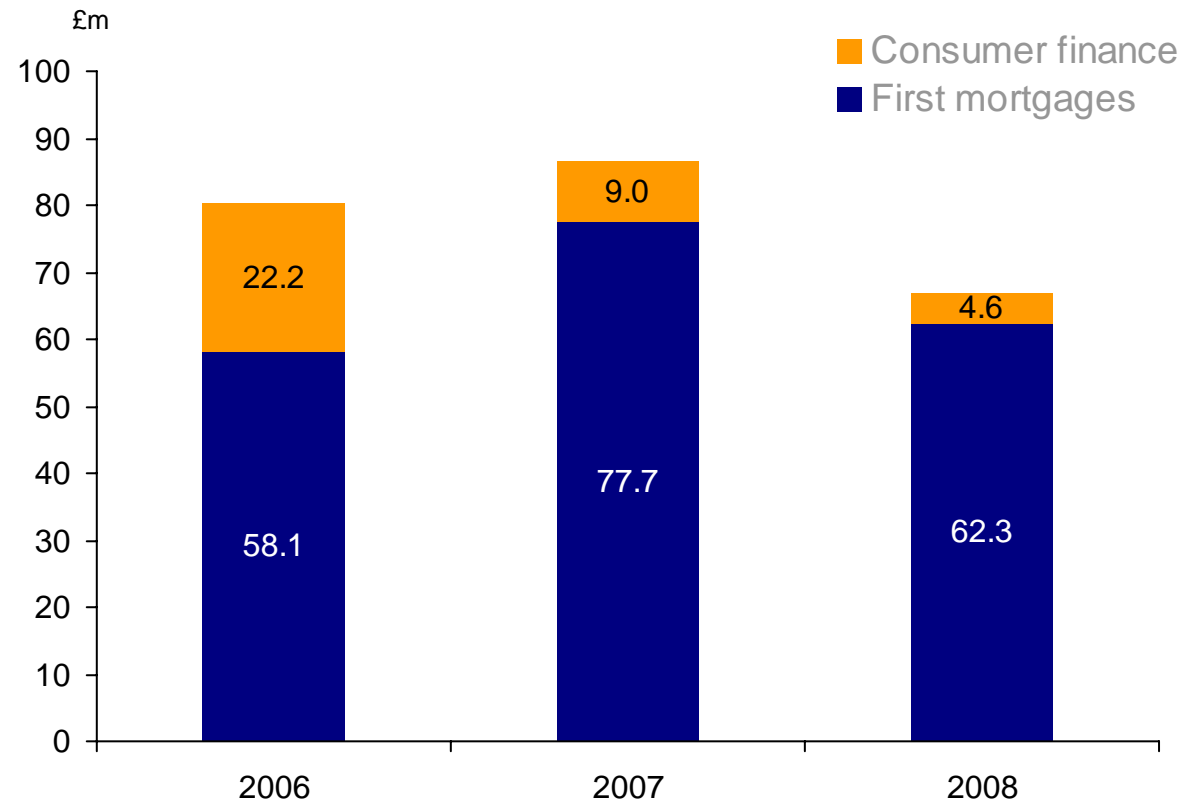
Paragon BTL redemption rates



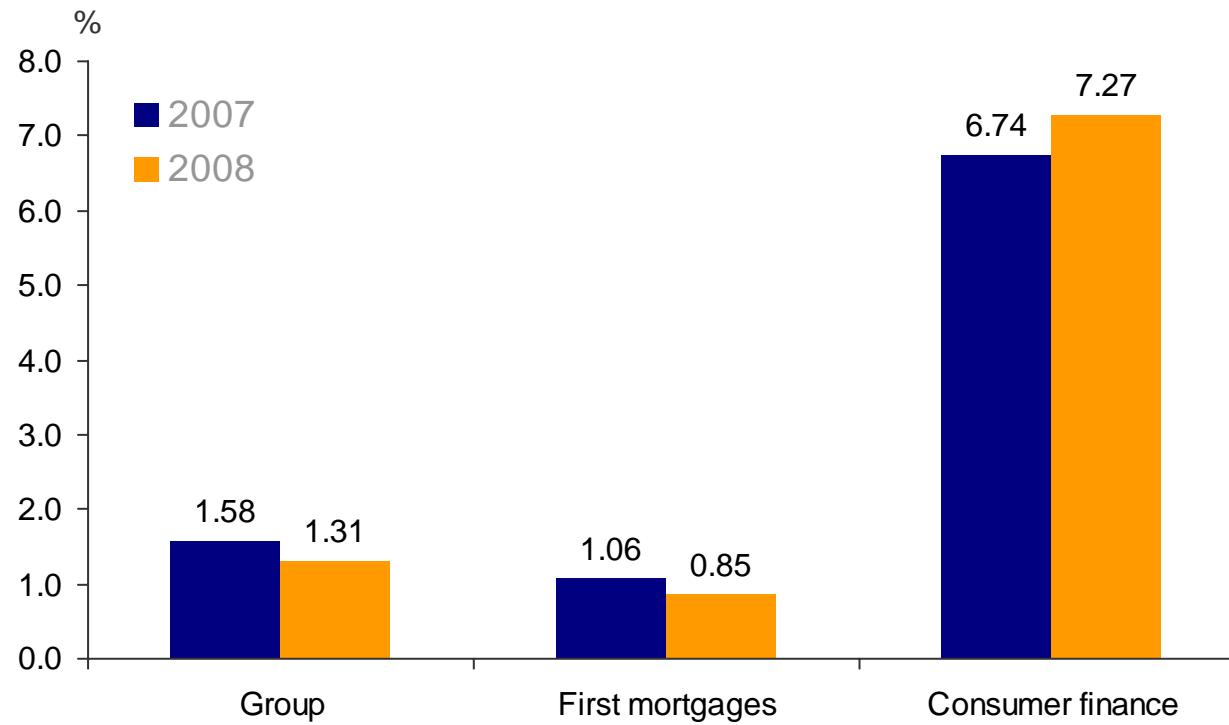
Secured redemption rates



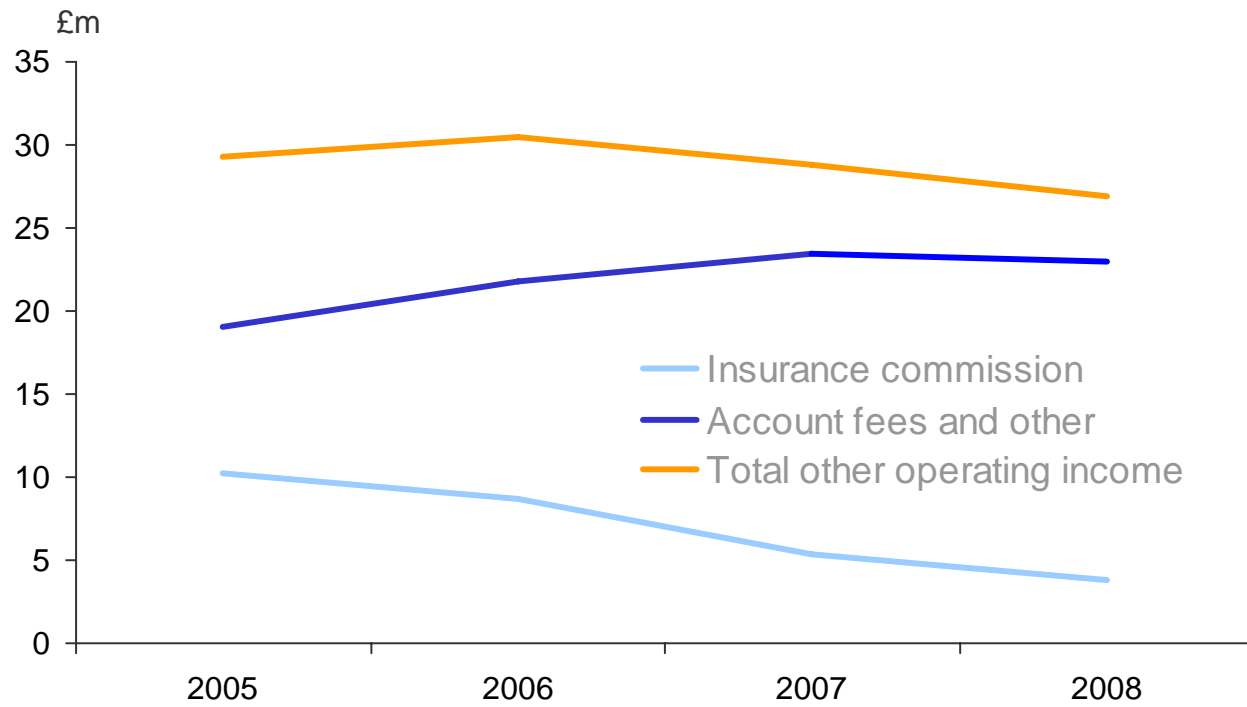
Segmental profit analysis



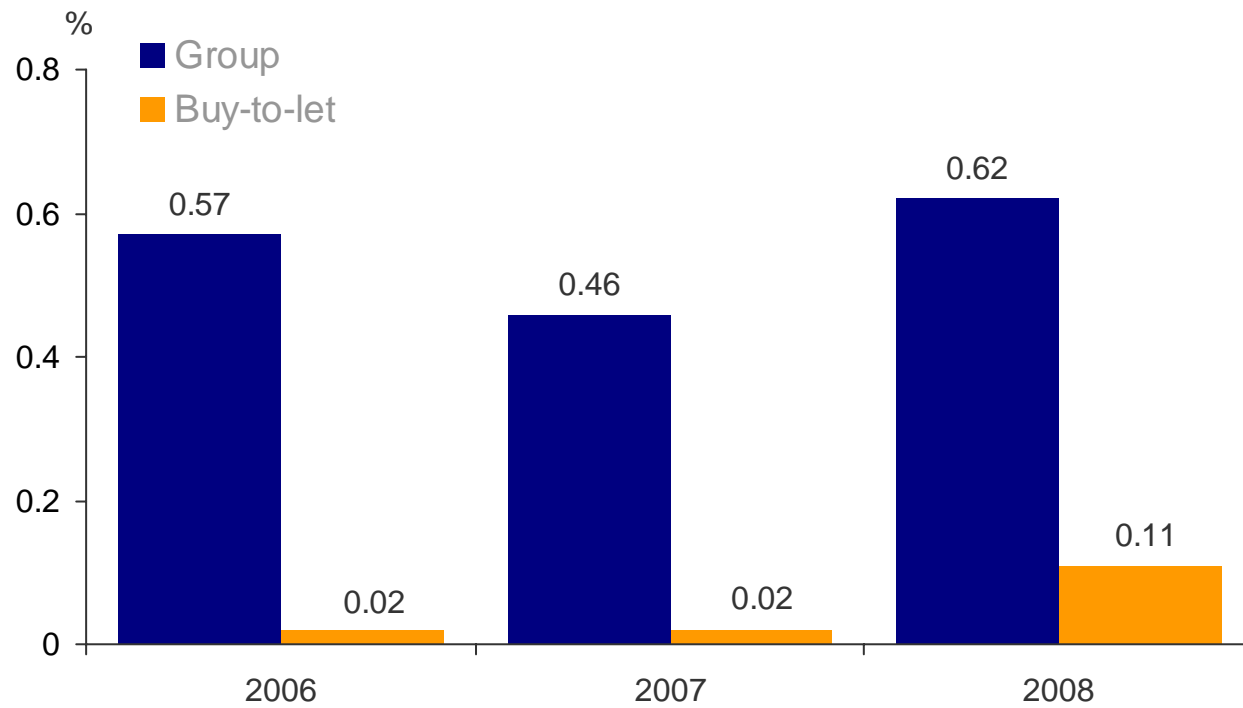
Net interest margin



Other operating income



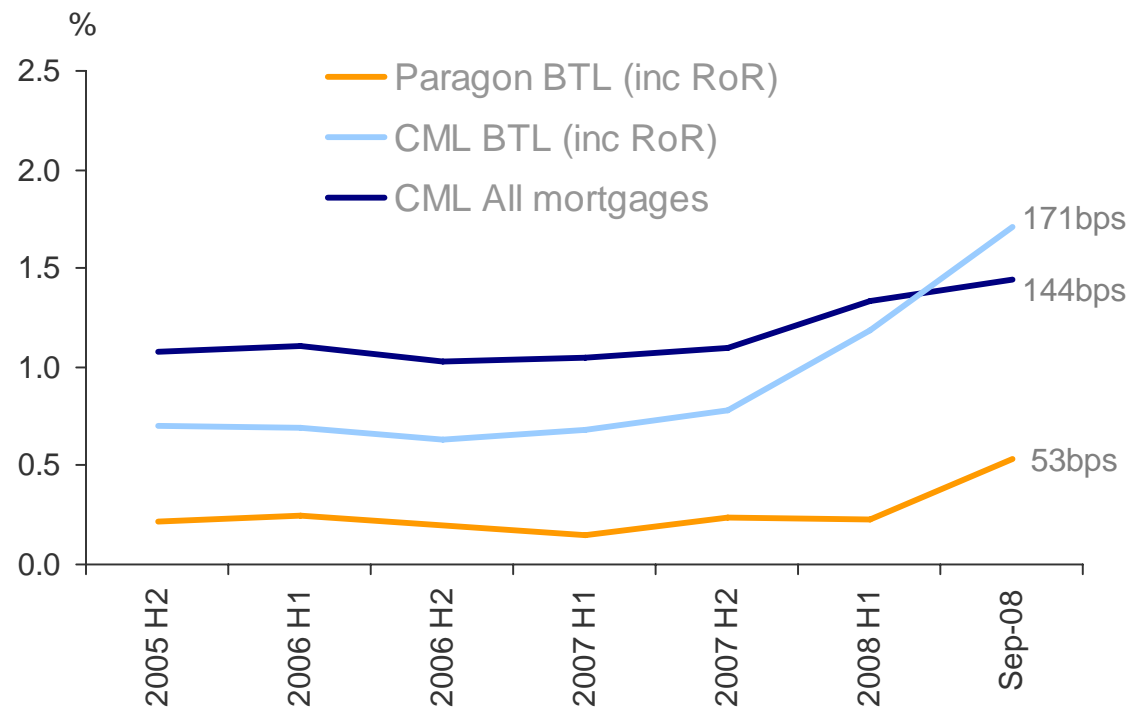
Bad debt charge as % of total loan assets



Majority of Group charge relates to unsecured loan book

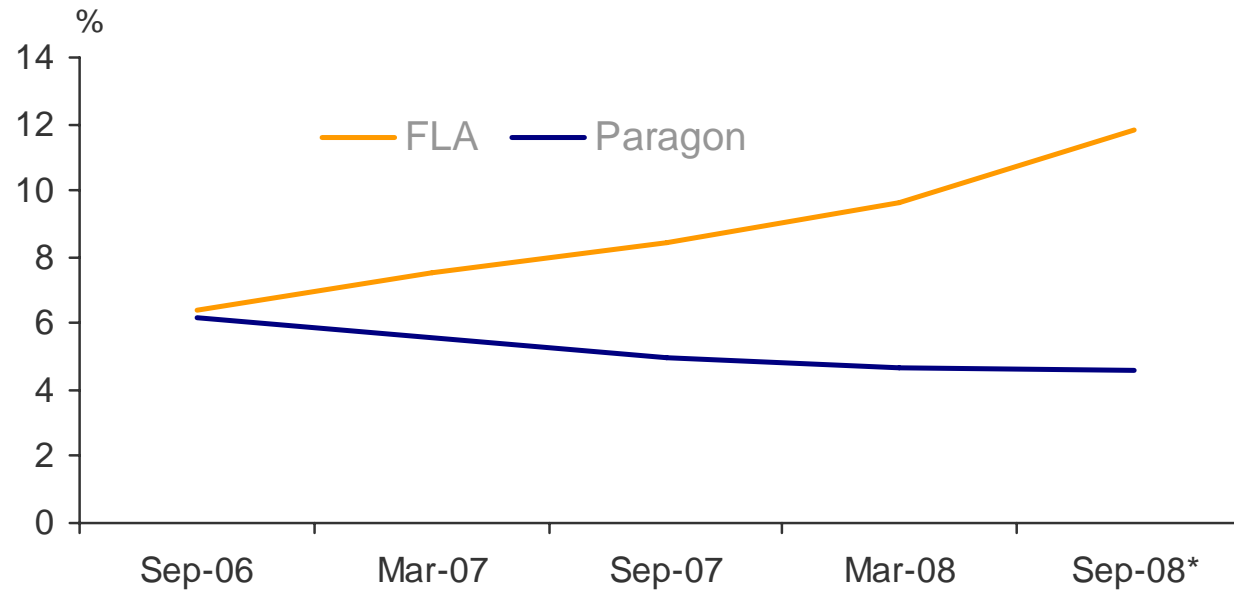
Buy-to-let arrears

Industry 3 months + arrears



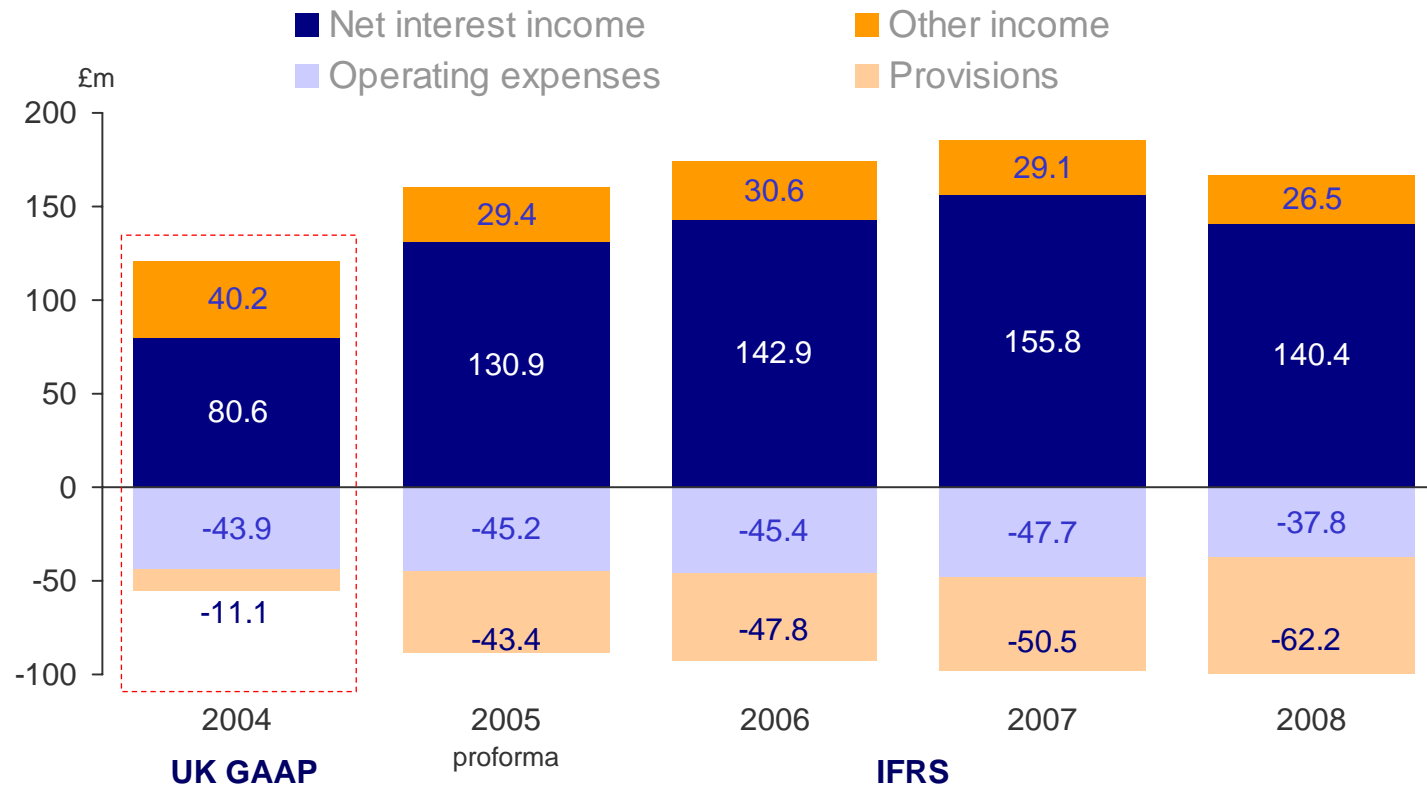
- Increased mortgage costs
- Voids remain low
- Paragon arrears remain significantly lower than BTL and mortgage industry
- Receiver of Rent process remains effective for managing arrears
- 39bps of the 53bps are subject to Receiver of Rent process

Consumer finance arrears (secured)

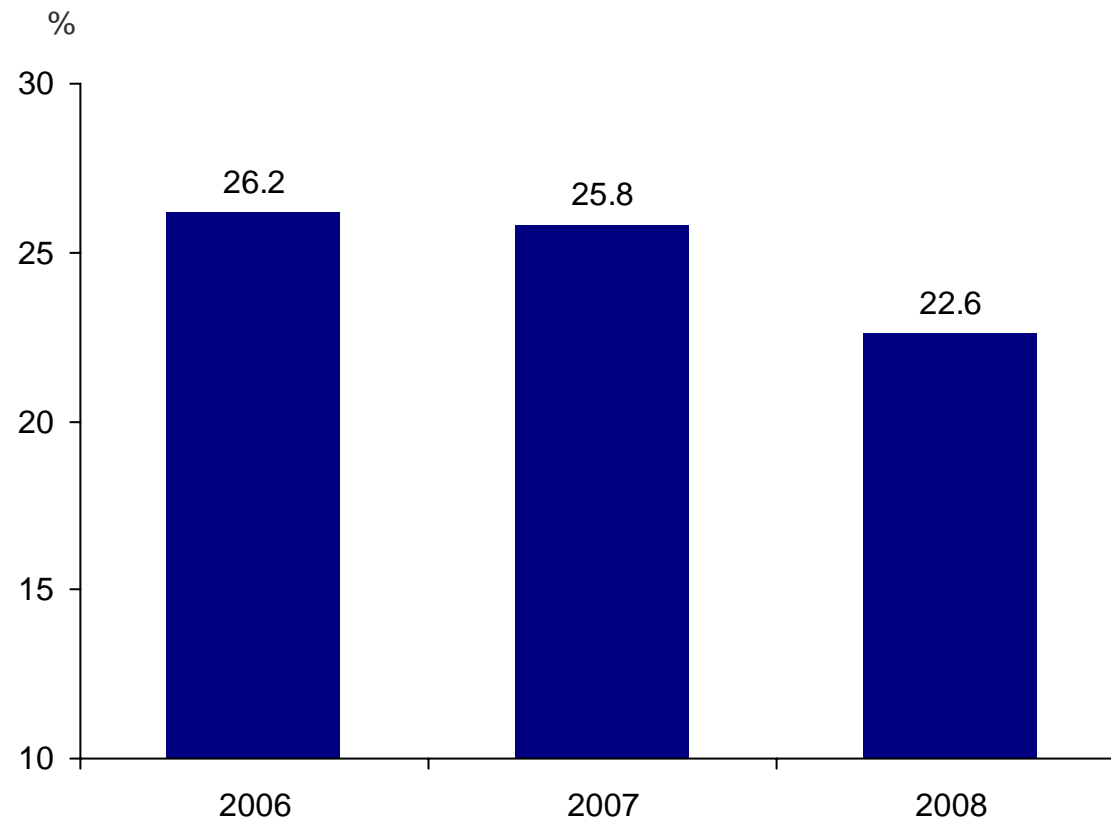


Paragon consumer finance arrears remain lower than industry averages but loss severity has increased

Operating profits



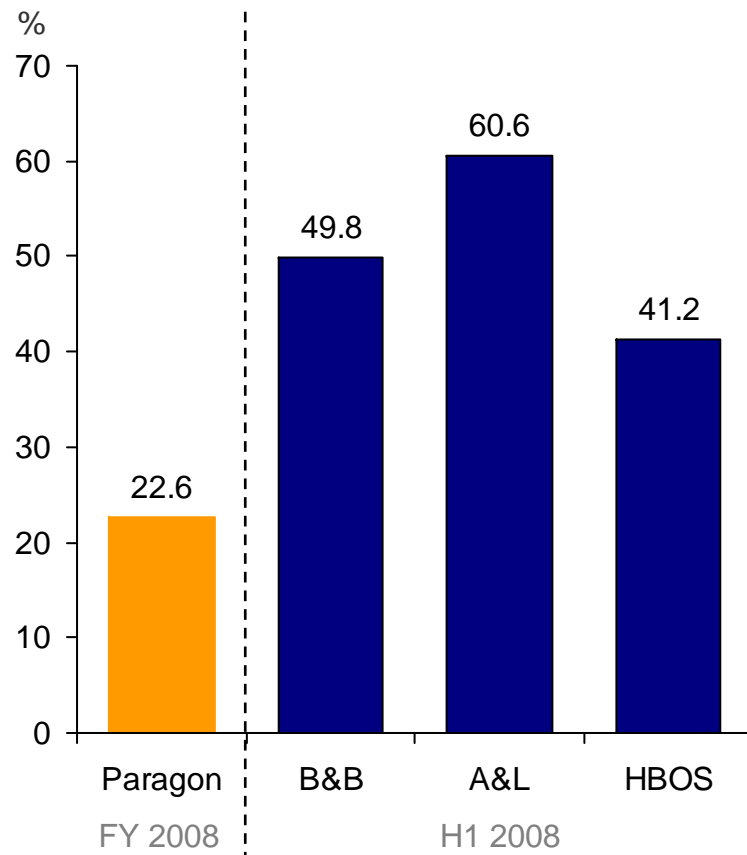
Cost:income ratio (underlying basis)



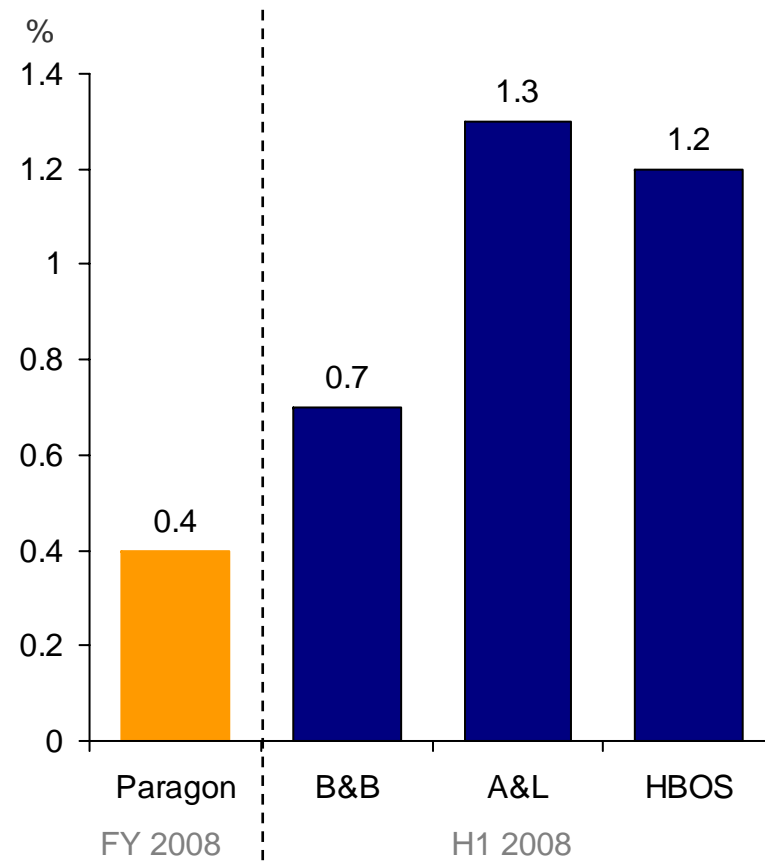
Cost effectiveness



Cost:income ratio



Cost:loan ratio



- Important to differentiate between capital and cash
- Operational cashflow positive
- Progressive dividend policy
- Environment may weaken SPV free cashflow
 - Absolute level of arrears and losses
 - Arrears triggers
- Prudent approach to cash management
- Flexibility for strategic initiatives
- Capital management to be kept under review

Section 3

Outlook

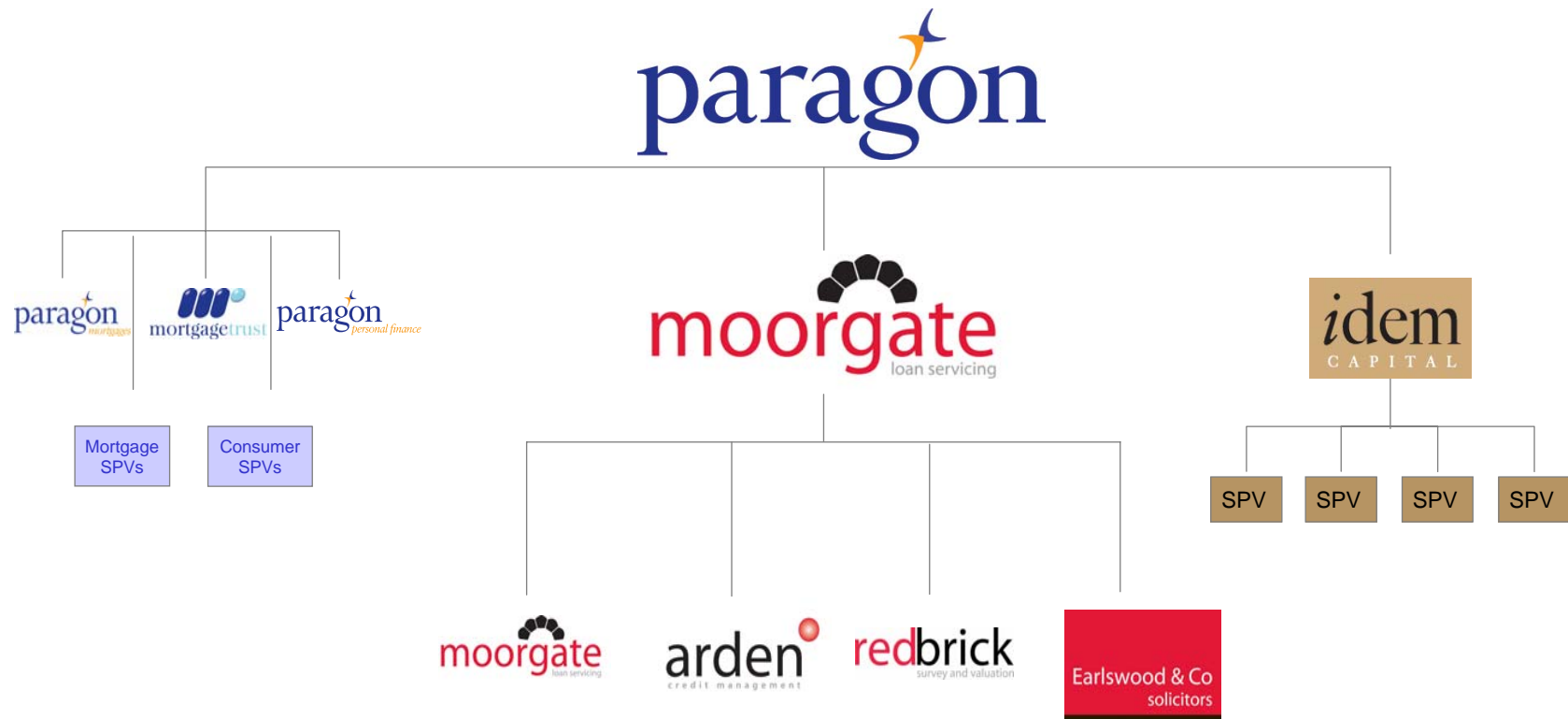
- Housing market will remain challenging
 - Activity levels weak
 - House prices will continue to correct
 - However, lower interest rates will mitigate impact
- Rental market remains well supported
 - Tenant demand strong – above long-run average (RICS)
 - However, supply increased as vacant properties put to lettings market
 - Lower rates likely to enhance landlord margins/mitigate rent reductions
 - Landlords not intending to sell – lowest recorded level (RICS)
 - However, will defer new investment

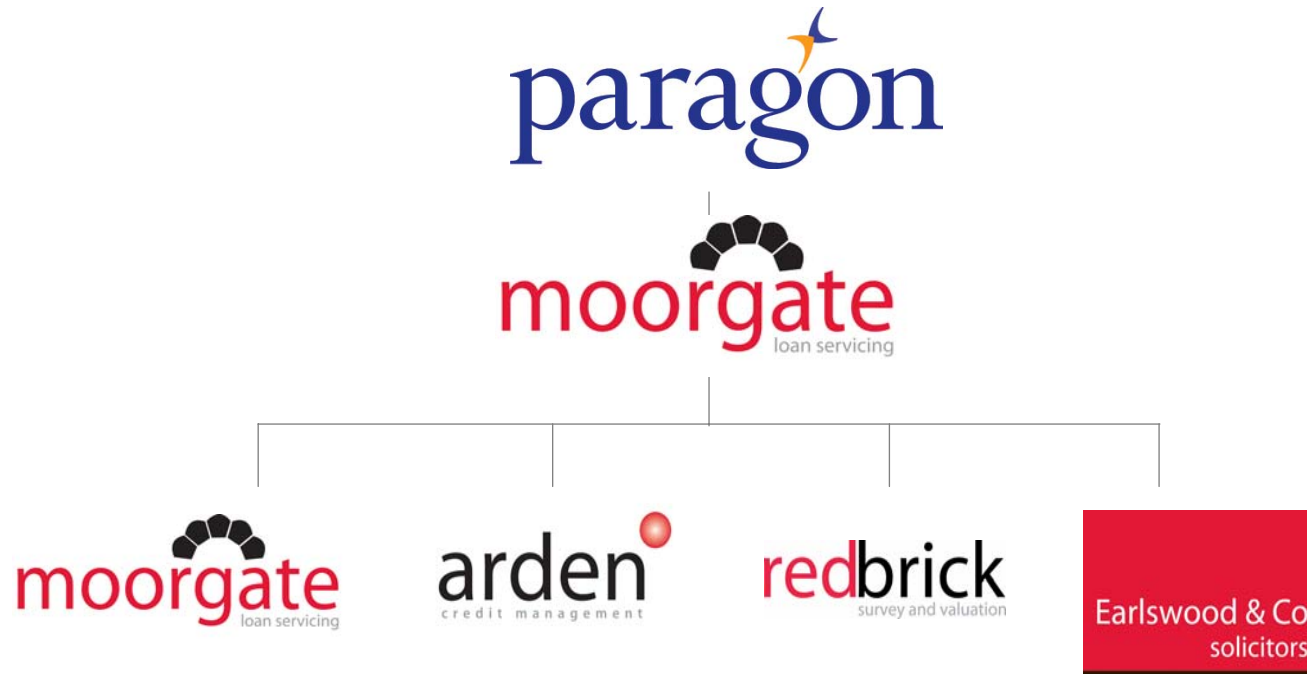
- Paragon's credit performance continues to outperform sector
- Arrears expected to increase further
- Evidence continues to point to other issues in customers' lives
- Rental cashflow strong – enhanced role of Receiver of Rent
 - 74% of 90 day + arrears subject to RoR
- Always maintained significant collections investment
 - Now enhanced further
 - Pre-arrears targeting
 - In-house Receiver of Rent established
 - In-house field collections team
 - Rental management team
 - Experience built around team from early 1990s

- 2007 decision to withdraw from car and retail markets due to inadequate returns
- Secured second mortgage lending:
 - Funded via substitution capacity in existing SPVs
 - Reduced competition in market
 - Tightened criteria further
 - Generating good risk adjusted returns
- Arrears stable, significantly better than sector:
 - Significant long-term collection investment exists
 - Now enhanced further
 - Loss severity increased

- Protection of embedded value
- Existing loan portfolios
 - Focus has been on:
 - High underwriting standards
 - Careful property valuation, managed in-house
 - Investment in arrears management maintained across the cycle
 - Careful management of existing assets
 - Team managed NHL out of last recession
- Servicing
 - Not a new strategy
 - Re-emphasis / rebranding
- Portfolio acquisitions

Group structure





- Past experience of servicing
 - Acting for third parties is not new
 - Not previously emphasised
- New contracts:
 - Redbrick
 - Valuations
 - Receiver of Rent
 - Energy Performance Certificates
 - Arden
 - Field collections
 - Earlswood
 - Litigation services
- Development potential:
 - Mortgages – estimated recession arrears circa £100 billion (currently £18 billion)
 - Consumer – estimated recession arrears circa £99 billion (currently £21 billion)
 - Insufficient market-wide servicing capacity

Third party clients:

- *Building societies*
- *Commercial banks*
- *Investment banks*
- *Private equity houses*
- *Debt purchasers*

Not capital intensive



- Past experience:
 - Not a new concept for Paragon
 - Portfolio purchases undertaken since early 1990's
 - All acquisitions delivered an acquired portfolio
- Future strategy:
 - Substantial opportunity
 - JV agreement with CarVal to support potential portfolio purchases
 - Co-investment structure
 - Combines Paragon servicing and diligence experience with CarVal financial strength
 - Widens scope and scale of potential transactions

Acquired portfolios:

- *Societe Generale*
- *Mortgages PLC*
- *Universal Credit*
- *Colonial Finance*
- *Britannic Money*
- *The Mortgage Corporation*

TOTAL = £2.8 BILLION

Capital efficient structures

- Strategy is centred around protecting embedded value
 - Rights issue
 - Management of portfolio
 - Development of new initiatives
- Well capitalised, £622 million core equity, £742 million total capital
- High quality loan portfolio:
 - Arrears and losses materially lower than industry
- Highly experienced and effective arrears management capability
- Environment also provides opportunities – utilising core skills
- Protecting embedded value remains key
- Capital management will be kept under review

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