

The Paragon Group of Companies PLC

Results Presentation

Year ended 30 September 2007



Agenda



Section 1	2007 financial results
Section 2	Current environment
Section 3	Funding
Section 4	Conclusion
Appendix A	Group overview
Appendix B	Buy-to-let investment case

Section 1

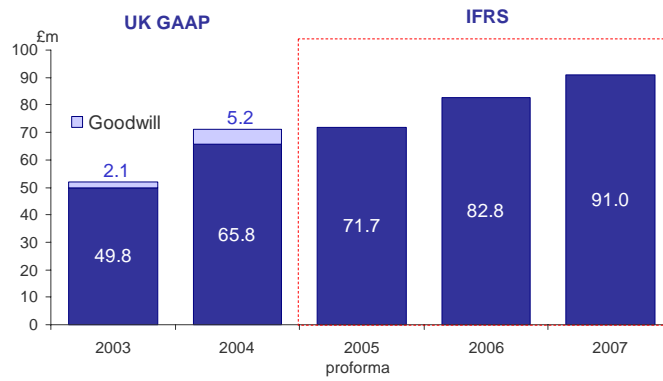
Financial results

For the year ended 30 September 2007

Financial highlights — year ended 30 September 2007

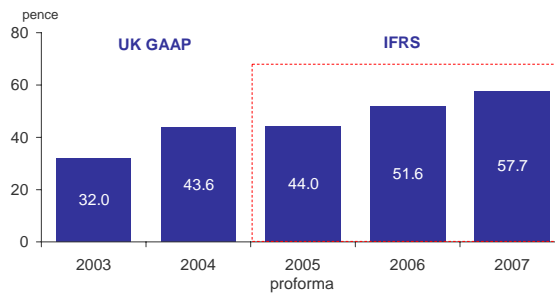
Pre-tax profit	Fully taxed EPS	Total equity
+ 9.9%	+ 11.8%	+ 12.3%
£91.0m	57.7p	£313.3m
Cost:income ratio	Fully taxed ROE	
25.2%	21.5%	

Profit record



EPS increased

- Fully taxed EPS increased by 12%
- Effective tax rate: 31%

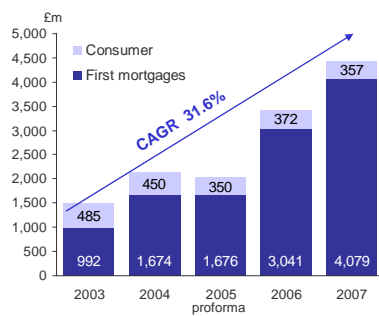


New lending and loan assets



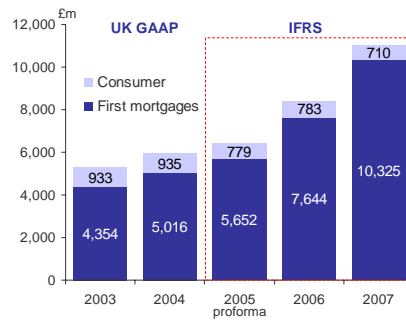
New lending

- 30% growth in new lending
- Buy-to-let lending increased by 34%



Loan assets

- Total loan assets 31% higher
- Buy-to-let assets increased by 39%

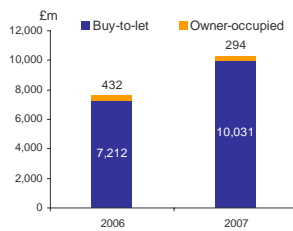


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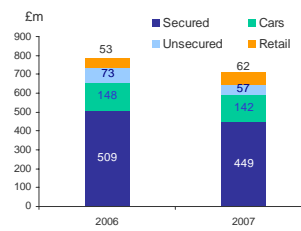
Segmental loan assets and profit analysis



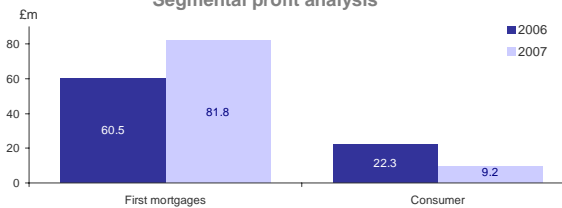
First mortgages loan assets



Consumer finance loan assets

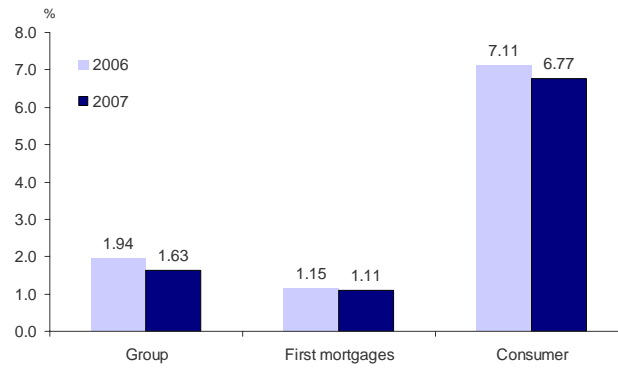


Segmental profit analysis



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Net interest margin



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Bad debt charge as % of loan assets



Low and reducing impairment charge for continuing operations

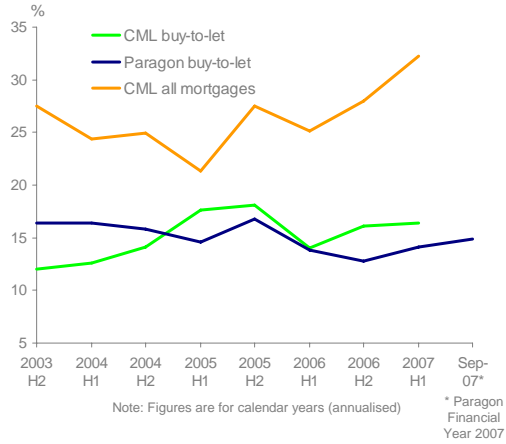


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Redemption rates



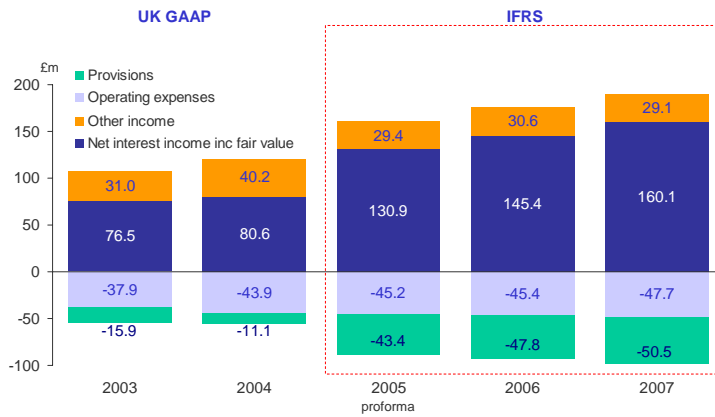
- ✦ Average investment hold period 16 years
- ✦ Lower housing transactions
- ✦ Retention rates high with strong repeat business levels
- ✦ Enhanced embedded lifetime customer value
- ✦ Closer customer relationship opportunities
- ✦ Buy-to-let is pension substitute



Source: Paragon / Council of Mortgage Lenders

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Operating profits



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Section 2

Current environment

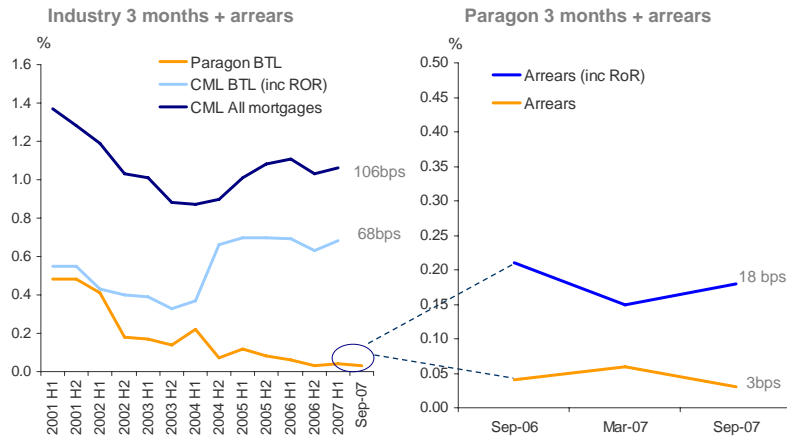
Market issues

- August – credit crunch
- September – Northern Rock
- October/November – further deterioration in markets
- Capital markets healthier than banking markets
- Compounded by year end issues
- Cost of debt risen across the board, largely being passed on to customers

- Virtual curtailment of new issuance since August
- Current lack of differentiation between asset quality and structures
- Bank RMBS investors impacted by capital constraints especially around year-end
- Some private placement activity, early indications of demand
- B&B pricing – AAA LIBOR + 44-53 bps
- Realistically no new issuance until at least Q1:08

- Whilst 2008 will see a slower housing market:
 - Landlords experiencing record rental growth (RICS)
 - Tenant demand continues to outstrip supply (ARLA)
 - Lower levels of activity in general housing market will boost demand for rental supply
 - Continued growth in UK households – migration, students, etc
 - Some landlords will see this as a buying opportunity
 - Although likely others will defer investment decisions due to uncertainty
 - Unlikely that landlords will bail out when there is strong tenant demand
- Fundamentally, long-term growth prospects for BTL remain sound
- High credit quality

Buy-to-let arrears analysis



Source: Council of Mortgage Lenders / Paragon

(Note: Figures are for calendar years)

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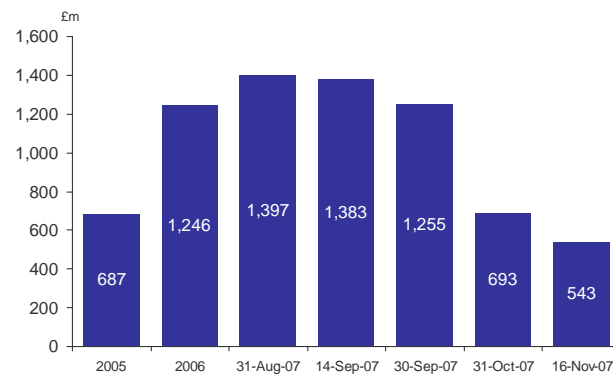
Buy-to-let strategy



- Current strategy driven by funding capacity and pricing
- Manage new business volumes at lower level:
 - Products re-priced to extend liquidity duration
 - Criteria tightened
- Volumes will remain low until clarity over market funding pricing and capacity

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Pipeline managed down



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Buy-to-let strategy



- Current strategy driven by funding capacity and pricing
- Manage new business volumes at lower level:
 - Products re-priced to extend liquidity duration
 - Criteria tightened
- Volumes will remain low until clarity over market funding pricing and capacity
- Cost control c10% headcount cut already
- Cost/activity management to remain a focus
- Protecting franchise with key broker relationships with future volume potential
- Third party forward flow agreements under discussion
- Establish funding arrangements to protect the business in the current environment

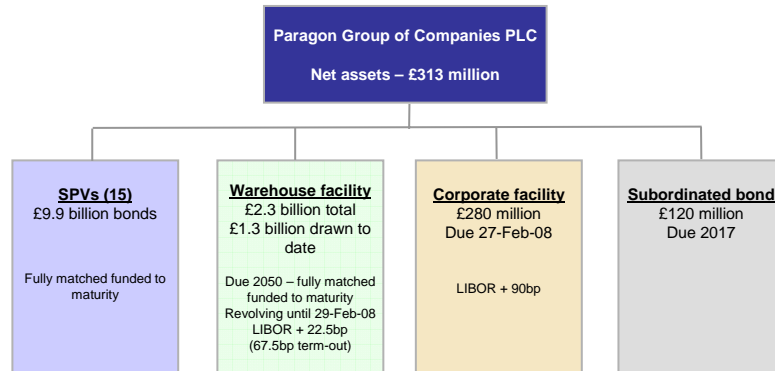
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- Market remains weak
- All consumer finance assets pre-funded with substitution capacity to lend more
- Tightened credit criteria
- No significant growth – in line with strategy

Section 3

Funding

Group's funding structure



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Bank facilities renegotiations



- Corporate and warehouse being renegotiated together
- Syndicates virtually identical
- Renegotiation affected by environment
- Extensive negotiations
- Terms available but unattractive
- Consequently standby rights issue put in place

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Standby rights issue



- £280 million standby rights issue – until end February
- Underwritten by UBS
- Sub-underwritten by major shareholders
- Pricing to be established in due course
- Subject to normal terms and conditions
- Alternatives already under discussion to reduce size / requirement of rights issue
 - Restructure existing syndicates
 - Structured finance debt repackaging
 - Corporate debt
 - Senior
 - Subordinate
- Non-core assets (£80m) disposal programme
- Key objective to protect embedded value and provide platform to secure new sources of funding

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Funding



- Assuming rights issue:
 - **99% debt maturity matched**
 - **Non-matched debt maturing – 2017**
- If not, financing on acceptable terms

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Represented by:

- Shareholder funds £313 million
- Embedded future profits in existing loan portfolios
 - 99% assets funded by mortgage-backed debt to maturities
 - Margins locked in at issuance
 - BTL margins stable, 99bp in 2006 and 101bp in 2007
 - c95% revenue driven by portfolio not activity
 - Key sensitivities:
 - Credit:
 - High quality assets
 - Buy-to-let 90 days+ arrears 18bp
 - Average LTV 66%
 - Loan duration:
 - Remains significantly below mainstream average
 - Fixed rate maturities mitigated by slower housing market
 - Retention activities
 - Costs:
 - Sector leading cost:income ratio already low
 - Broker costs totally variable
 - Alignment of cost base to reflect activity levels

Section 4

Conclusion

- Whole market affected by credit crunch
- Standby will provide platform to refinance and protect embedded value
- Our strategy:
 - Complete restructuring of funding
 - Manage reduced level of lending volumes
 - Ensure costs aligned to activity
 - Protect franchise
 - Provide basis to rebuild activity when credit markets permit
- Fundamentals of buy-to-let remain sound

Appendix A

Group overview

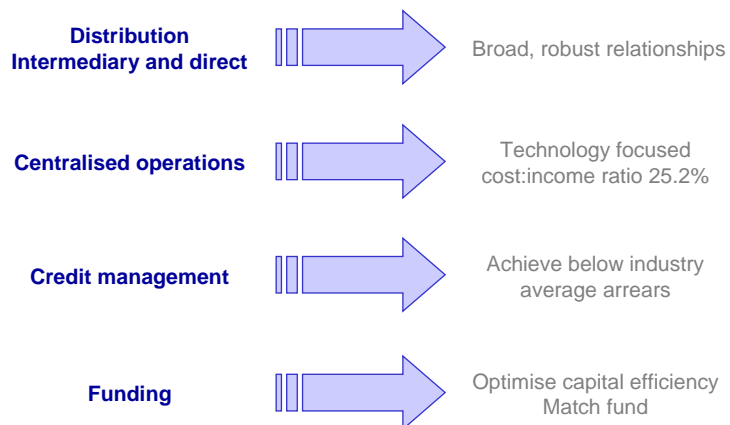
Paragon Group overview



Loan assets		Business mix	
First mortgages £10.3 billion	Consumer finance £0.7 billion	Loan portfolio 98% secured	New lending 96% secured
Funding		Securitisations	
£11 billion assets	Long-term matched funding	Most established UK securitisation issuer	53 transactions £19.5 billion

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Paragon strategy

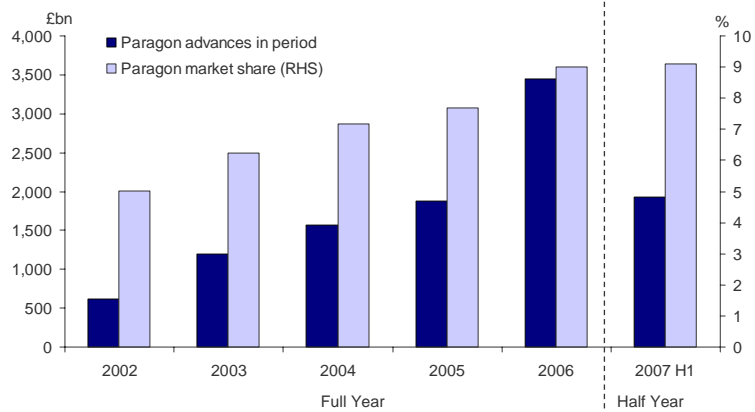


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Paragon market share



Paragon market share has increased - latest figures for 2007 H1: 9.1% market share



Source: Council of Mortgage Lenders / Paragon

(Note: Figures are for calendar years)

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PRS and buy-to-let market



- PRS 38% real growth over last 15 years
- PRS units grew by 10% in the last two years, during which time total housing stock grew by only 1.7%
- New lending in 2006 - £38.4 billion – 11% of all mortgages
 - 2007 H1 - £21.2 billion – 12% of all mortgages
- High socio-economic group customers
- £108 billion mortgage debt outstanding
- Excellent credit quality with longer average loan life
- Under-gearred sector

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Top 10 buy-to-let lenders



H1 07	by Gross Advances	by Balances Outstanding
1	Mortgage Express (Bradford & Bingley)	Mortgage Express (Bradford & Bingley)
2	Birmingham Midshires (HBOS)	Birmingham Midshires (HBOS)
3	Paragon Group	Paragon Group
4	Northern Rock	Bristol & West
5	Cheltenham & Gloucester (Lloyds TSB)	Cheltenham & Gloucester (Lloyds TSB)
6	Mortgage Works (Nationwide)	Northern Rock
7	GMAC	Capital Home Loans (Irish Life & Permanent)
8	Bristol & West	Mortgage Works (Nationwide)
9	Capital Home Loans (Irish Life & Permanent)	Mortgage Business (HBOS)
10	Mortgage Business (HBOS)	Barclays - Woolwich

Source: Council of Mortgage Lenders

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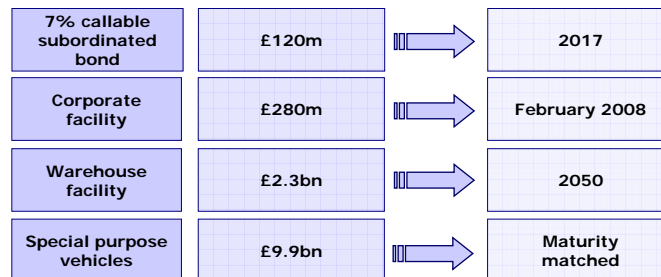
Consumer finance strategy



Secured 2007	Point of Sale 2007
Loan book £449m New lending £206m	Loan book £204m New lending £151m
<ul style="list-style-type: none"> All lending secured by mortgages on residential property PPF targets prime customers 	<ul style="list-style-type: none"> Car finance: <ul style="list-style-type: none"> Primarily new cars Origination via medium-sized dealers and brokers Retail: <ul style="list-style-type: none"> Originations via specialist retailers Product focus on furniture/floor covering Primarily sales aid initiatives
<ul style="list-style-type: none"> Sub-prime originations passed to Morgan Stanley for fee income – volumes negligible in current market 	

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Securitisation and funding



Funding activity 12 months to 30 September 2007

- October 2006 – PM13 - £1.5 billion (buy-to-let)
- January 2007 FF7 - £269 million (owner-occupied)
- March 2007 – PM14 - £1.5 billion (buy-to-let)
- July 2007 – PM15 - £1.0 billion (buy-to-let)

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Shareholder structure



Top ten shareholders (% of shares held at 31/10/07)

Holdings @ 31 October 2007	
1. Veer Palthe Voute	7.79%
2. BlackRock	7.03%
3. M&G Investment Management	6.89%
4. Standard Life	5.62%
5. The Paragon Group of Companies	5.51%
6. Scottish Widows	5.10%
7. Rathbone Investment Management	4.48%
8. Oppenheimer Capital	4.29%
9. Legal & General	4.24%
10. Schroder Investment Management	3.96%

- 100% free float
- Management interest 5%
- Corporate brokers:
 - ABN AMRO
 - UBS
- Analyst coverage:
 - ABN AMRO
 - Cazenove
 - Clear Capital
 - Credit Suisse
 - Daniel Stewart
 - Fox-Pitt Kelton
 - HSBC
 - KBC Peel Hunt
 - Keefe Bruyette & Woods
 - Numis
 - Oriel Securities
 - Landsbanki
 - Shore Capital
 - UBS

Source: UBS

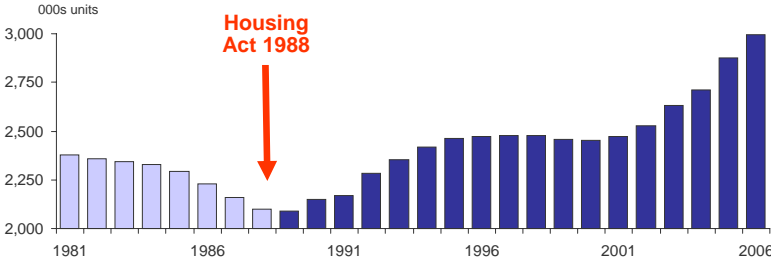
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Appendix B

Buy-to-let investment case

Private rented sector

Prior to the Housing Act of 1988 the UK private rented sector had been in long-term decline

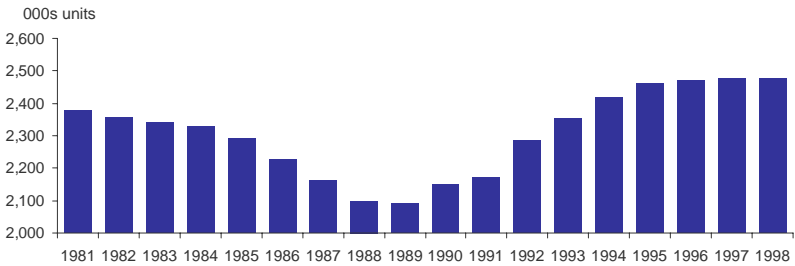


“The modern private rented sector was founded at that time through a combination of changing government policy and social trends”

Source: Communities and Local Government

Expansion in early 1990s...

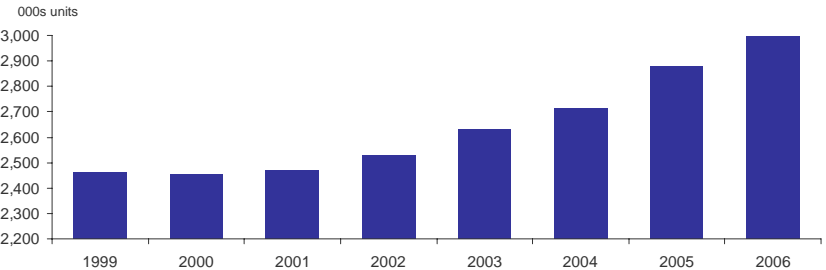
- First-time buyer confidence affected
- Private renting increased rapidly
- Strong tenant demand supported rental incomes
- Falling house prices combined with strong rental demand improved yields
- Professional landlords took advantage of purchase opportunities



Source: Communities and Local Government

...followed by further expansion in early 2000's

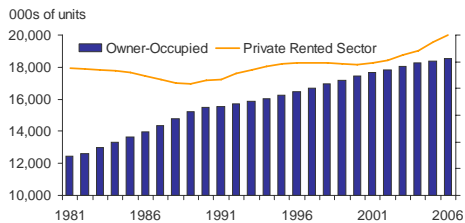
- Rapid house price inflation priced first-time buyers out of the market
- This led to a rapid increase in private renting
- Strong tenant demand supports rental incomes
- Professional landlords remain committed to the market



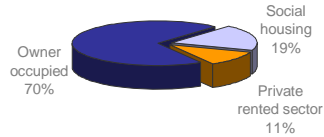
Source: Communities and Local Government

Household trends and tenure of stock

- Between 1971-2006:
 - UK population increased by 8%
 - Number of households increased by 30%
- Growth in owner-occupation slowed in recent years; private rented sector growth increased
- PRS now accounts for 11% of UK housing stock
- 5-6% of all households currently live in BTL properties (ARLA)



Tenure of UK housing stock (26.4m properties):



Source: Communities and Local Government

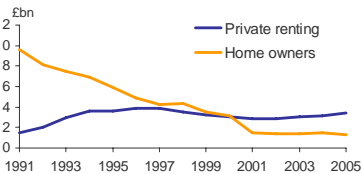
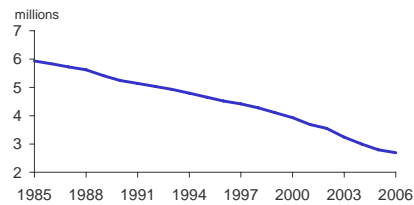
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Government policy on private rented sector

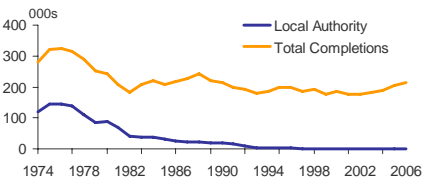
“...The Government's objective is to secure a larger, better-quality, better-managed private rented sector”

- Tenure neutral housing policies
- MIRAS removed from owner-occupation
- Stamp duty imposed
- Reform of landlord / tenant legislation – Housing Act 1988
- Tenancy Deposit Schemes
- Government help with housing costs for homeowners has fallen:

- There has been a persistent decline in dwelling stock rented from local authorities:



- Local authority housing completions remain low:

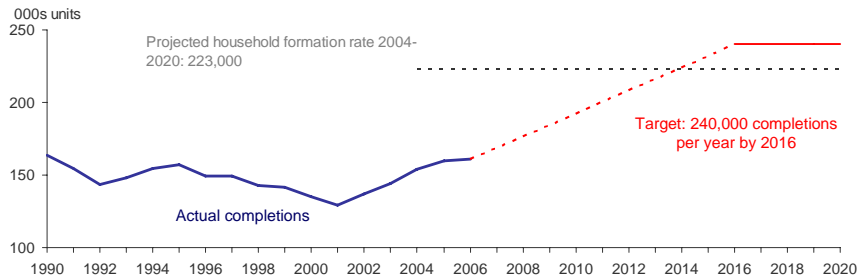


Source: Council of Mortgage Lenders / Communities and Local Government

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Government housing policy: future plans

- July 2007 Green Paper on Housing in England:
 - aims to build 3m new homes by 2020, with completions rising to 240,000 per year by 2016
 - pledge to double annual rate of social housing completions
- However, demand back-log will continue to grow



“ I also recognise you have got to combine the building of housing for ownership with the building of houses for rent in a far more mobile and fluid society”

Gordon Brown, May 2007

Source: Communities and Local Government

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Green Paper: supply of affordable housing in England

- Housing completions will need to increase sharply to meet the target of 240,000
 - 167,577 completions in 2006
- Affordable housing plans
 - aim to provide 25,000 shared-ownership homes each year
- Social housing
 - 1.6 million households on waiting list
 - demand increases by 40,000 per year
 - extra 45,000 units per year will make little impact

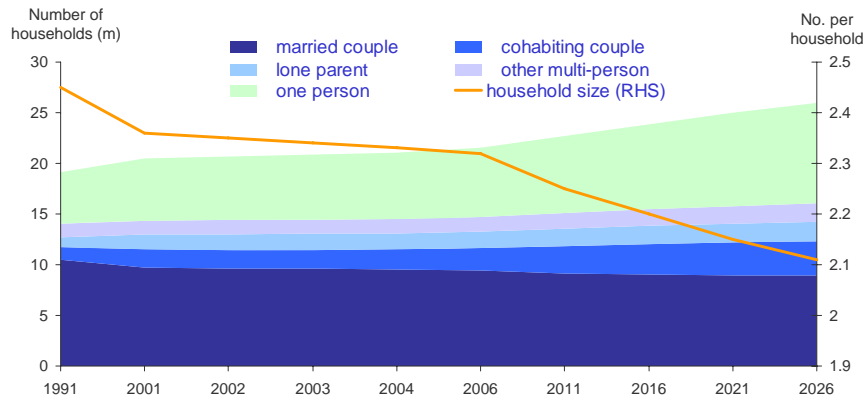
“The proportion of private renters aged between 20 and 44 who can afford to buy a starter home has fallen from 48% to 21% over the past 10 years”

“Homes for the Future: more affordable, more sustainable”
Communities and Local Government
July 2007

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Demographic factors: rise of one-person households

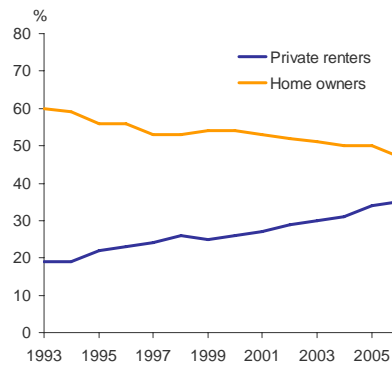
- There has been a significant increase in the number of one-person households
 -1971: 18%
 -2006: 29%



Source: Communities and Local Government

Growth in popularity of renting among young people

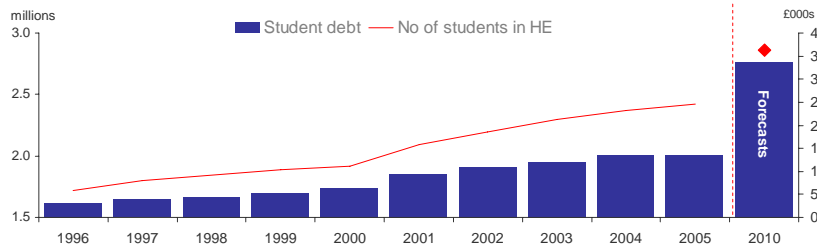
- Communities and Local Government report highlights the growing popularity of private renting among the young
- The 25-29 year old age group particularly affected
- Proportion of private renters increased from 19% in 1993 to 35% in 2006
- Corresponding decline in home owners
- Many factors are influencing tenure choice, including the relative costs of buying and renting



Source: Communities and Local Government - Housing In England 2005/2006

Rising student population and graduate debt

- Number of students in higher education up 43% over last decade
- Government committed to increasing the proportion of young people in higher education
 - 50% by 2010 (currently 43%)
 - This could take the number of students to 2.86m in 2010
- Student debt up 380% between 1995-2005, and graduates in 2010 are expected to owe £33,700
- Universities are only able to supply accommodation to 25% of students



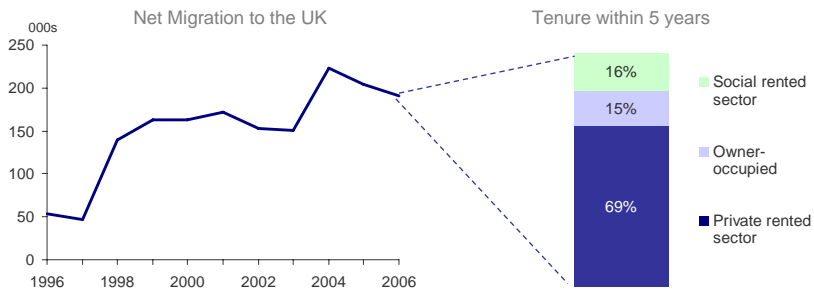
Sources: Higher Education Statistics Agency / Barclay's Student Survey / UNITE

Inward migration (i)

- In 2006, 591,000 people migrated into the UK
- Increase largely due to EU Accession
- Inward migrants have a greater propensity to rent
- 25% of all householders in the private rented sector are of nationalities other than British or Irish

"Housing demand simply for new immigrants will increase from 200 a day to 260 a day throughout the next twenty years"

Sir Andrew Green
Migrationwatch
September 2007

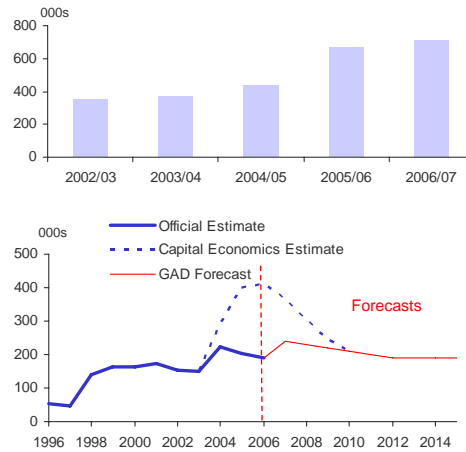


Source: Office for National Statistics / Council of Mortgage Lenders / Communities and Local Government

Inward migration (ii)

- Migrants from EU accession countries have boosted the number of workers obtaining a UK national insurance number
 - over 80% are under 35 years old
- 120,245 migrants from the A8, Bulgaria and Romania registered with the home office in H107
 - up 15% from 104,590 in H106
- Net migration is forecast to stabilise at a high level
 - GAD: over 200,000 per year for next 5 years; 190,000 per year beyond 2012

Foreign workers obtaining UK NI number

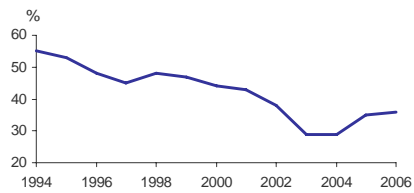
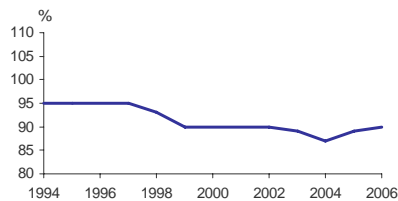


Source: Department for Work and Pensions / Capital Economics / Government Actuary's Department / Office for National Statistics

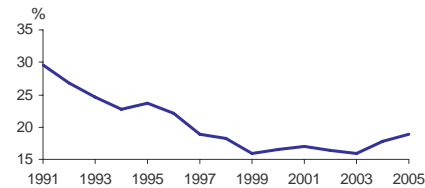
Decline of first-time buyers (i)

- Affordability constraints, lifestyle choices and rising student numbers are contributing to the decline of first-time buyers
- Average age of FTB now 34 (27 in 1977)
- The average LTV for FTBs fell from 95% in 1994 to 90% in 2006
 - FTBs paying larger deposits

- First-time buyers as a proportion of all buyers has fallen from 55% in 1994 to 36% in 2006



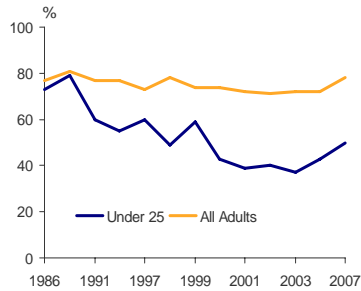
- 19% of first-time buyers were under-25 in 2005, down from 30% in 1991



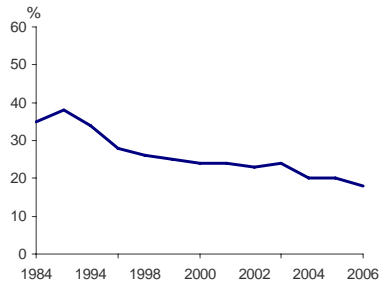
Source: Council of Mortgage Lenders / Communities and Local Government / GE Money Home Lending Survey

Decline of first-time buyers (ii)

- The proportion of under-25s aspiring to home-ownership within two years has recovered slightly...



- ... but actual home-ownership rates still declining for under-25s - aspirations are not entirely realistic



“Aspiring first-time-buyers are continuing to rent until the market trend becomes clearer.”

Jeremy Leaf, RICS, August 2007

Source: Council of Mortgage Lenders / Communities and Local Government

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Decline of first-time buyers (iii)

Findings of GE Money Home Lending Survey comparing lifestyles in 1977 and 2007:

- In 1977 30% of 25-year olds saw home-ownership as important
- now only 17% believe it is important, and it is no longer their top priority
- House prices grew by 1,436% over the 30 year period
- 76% say first-time buyer affordability is now worse than ever before
- 51% of first-time buyers now receive financial support from family

“The fact that taking the first step onto the property ladder now occurs later in life is due in no small part to economic factors such as house prices.

Our analysis also reveals that today’s potential younger buyers also have vastly different attitudes, aspirations and lifestyles to their counterparts 30 years ago.”

Source: GE Money Home Lending Survey

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First-time buyer affordability

- House prices have risen by a compound rate of 11.7% a year since 1996 - first-time buyer incomes have risen by a compound rate of 3.5% a year

“First-time buyers are facing an enormous struggle to access the housing market.”

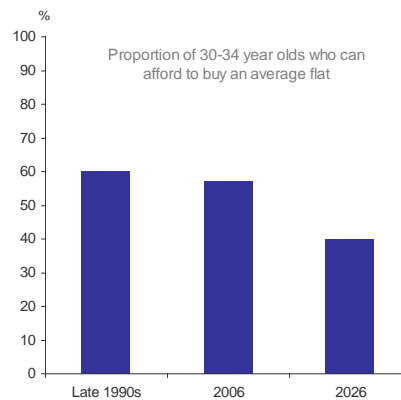
David Stubbs RICS Senior Economist
5 September 2007

“The present difficulties of first-time buyers will remain a feature of British society for many years to come.”

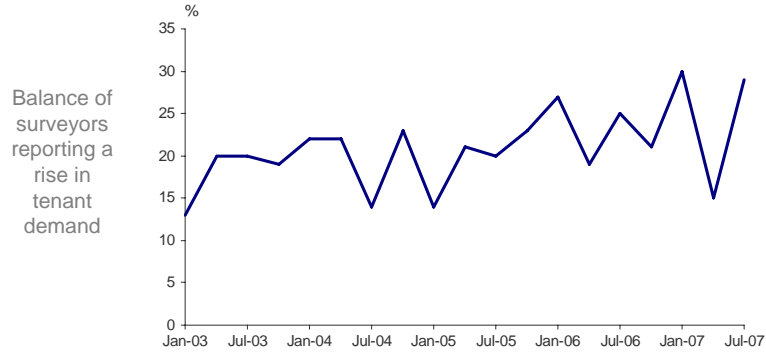
David Stubbs RICS Senior Economist
5 September 2007

Declining affordability

- Modelling by the NHPAU shows that in the late 1990s, 60% of 30-34 yr olds could afford to buy the average flat
- By 2006, the proportion was 57%
- In 2026, only 40% are expected to be able to buy



Tenant demand

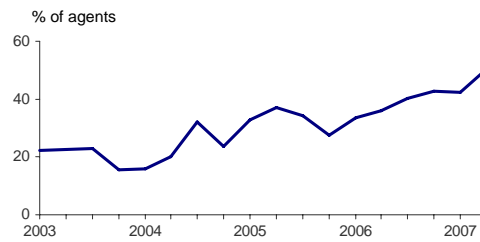


Tenant demand rebounded in July

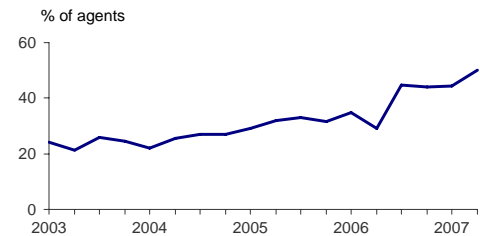
Source: Royal Institution of Chartered Surveyors

Growing tenant demand is driving rental growth

- The proportion of ARLA agents reporting more tenants than properties is at its highest ever level

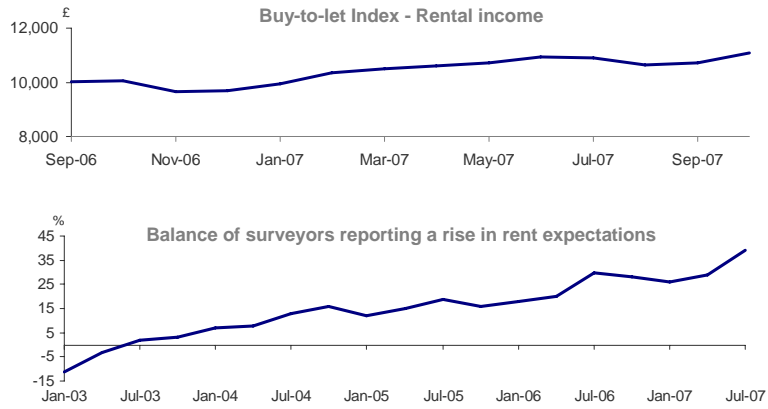


- The proportion of ARLA agents reporting an increase in achievable rent levels has also increased to a record level



Source: Association of Residential Letting Agents

Rents

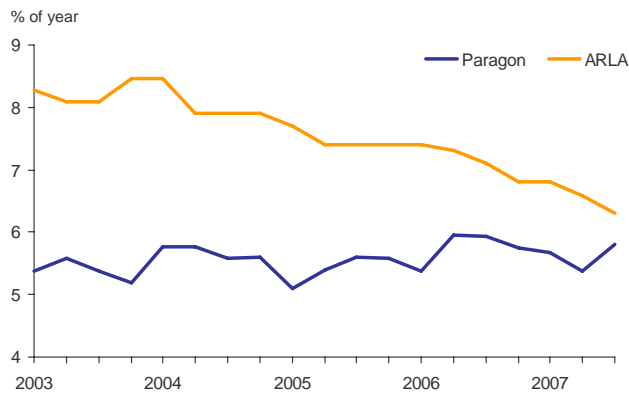


Tenant demand pushing rents up at fastest ever pace

Source: Paragon Buy-to-let index / Royal Institution of Chartered Surveyors

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Voids



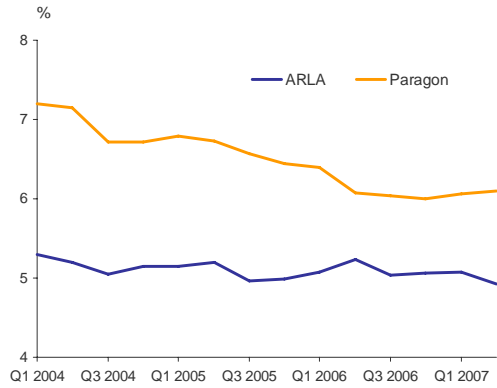
Paragon voids remain below industry average

Source: Association of Residential Letting Agents

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Market rental yields

- Yields have fallen gradually over past two years, from an average of 5.6% to an average of 5.2%
- Only measures yield on day one, takes no account of rental growth
- Capital Economics expect rental yields to improve going forwards

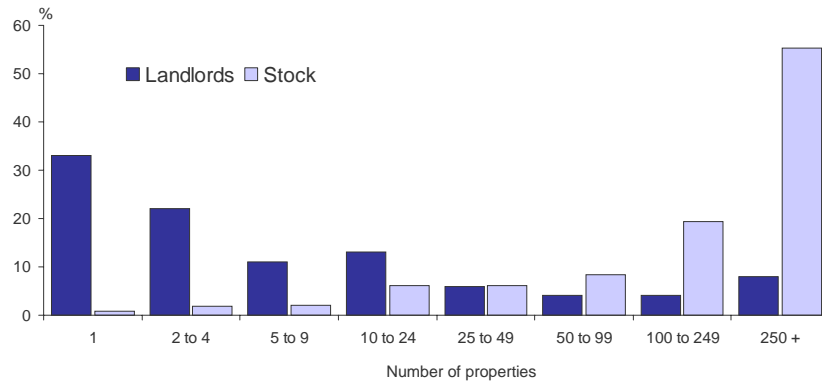


Source: Capital Economics / Paragon

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Government surveys show that professional landlords hold bulk of private rented sector stock

- The majority of landlords own a small number of properties
-55% of landlords own 3% of stock
- The majority of stock however is owned by professional landlords with large portfolios
-12% of landlords own 75% of stock

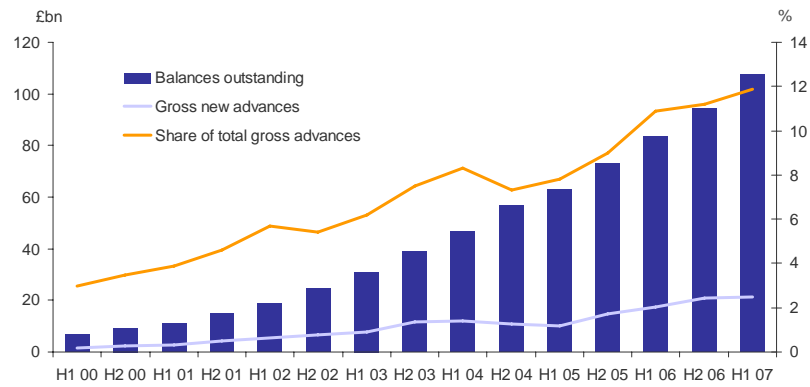


Source: Communities and Local Government Private Landlords Survey

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UK buy-to-let market

The buy-to-let sector is seeing strong volume growth and accounts for an ever-bigger share of the UK mortgage market

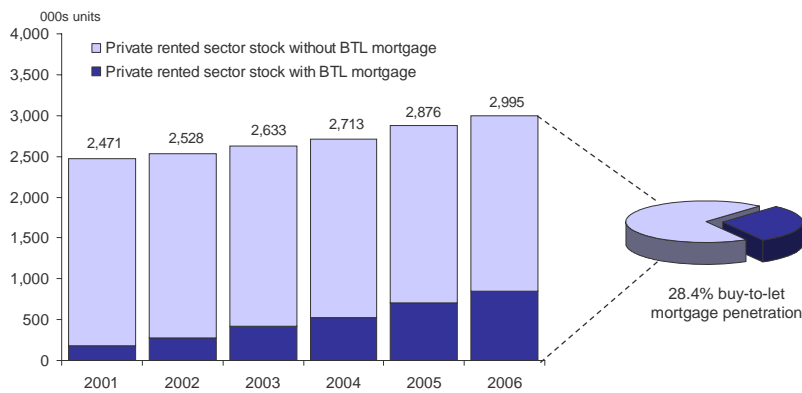


Source: Council of Mortgage Lenders

(Note: Figures are for calendar years)

Low debt penetration in the private rented sector

- The number of buy-to-let mortgages as a proportion of the private rented sector is growing
- However, debt penetration in the sector is still low – there is room for further growth

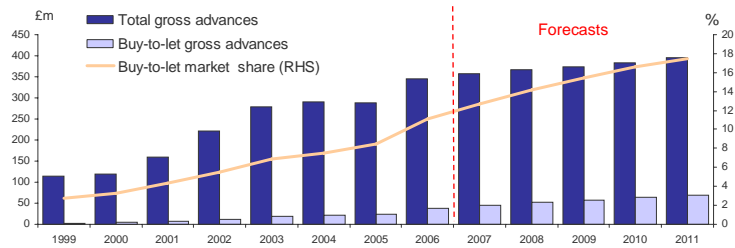


Source Council of Mortgage Lenders / Communities and Local Government

Long-term growth prospects

“Sustained tenant demand driven by a number of factors such as the difficulty of first-time buyers in getting on the property ladder, a change in lifestyle, a need for more flexibility and a growing immigrant population suggests that the future is bright for buy-to-let.”

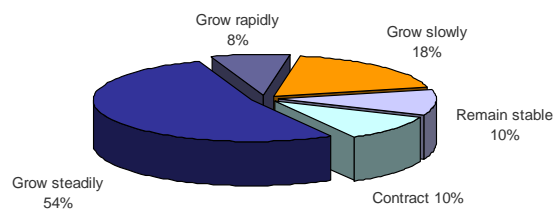
UK Buy-to-let Mortgages 2007, Datamonitor



Source: Datamonitor

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What will happen to the buy-to-let sector in the future?

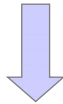


80% of intermediaries believe that the buy-to-let sector will continue to grow in the future

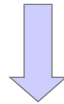
Source: Datamonitor

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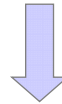
Latest ARLA survey shows positive mood amongst landlords with key data showing significant improvement



90% of ARLA landlords said they would hold their buy-to-let investment even if house prices fall

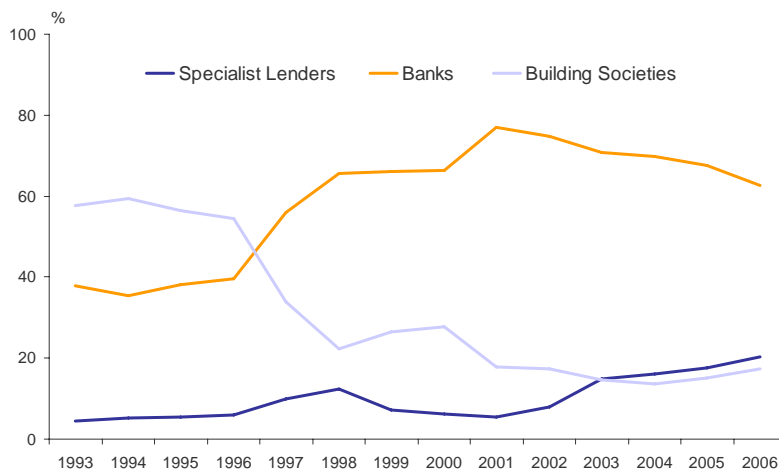


54% intend to acquire further buy-to-let investments during the next 12 months



66% said the average life expectancy of their property investment is 10 years or more

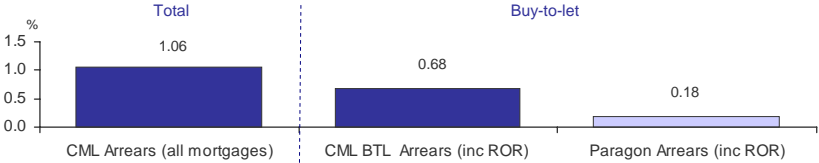
Source: Association of Residential Lettings Agent Review & Index of Residential Investment (Q3:2007)



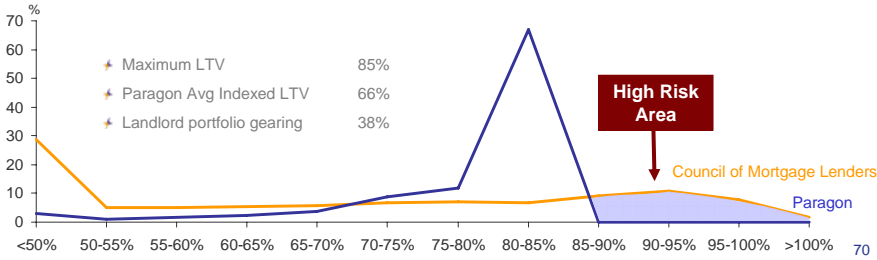
Source: Council of Mortgage Lenders

Credit quality – buy-to-let

Buy-to-let arrears are lower than wider mortgage market arrears
 Paragon arrears are significantly below the industry average



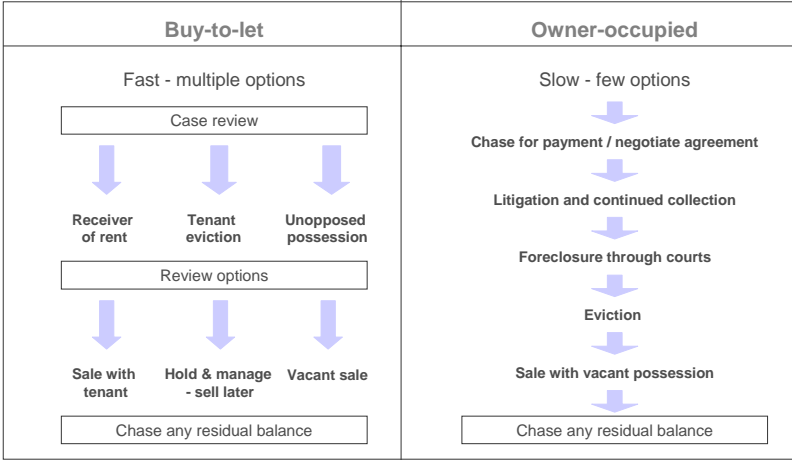
Paragon's LTV distribution is highly conservative and avoids high risk areas



Source: Council of Mortgage Lenders / Paragon

Buy-to-let enforcement process

Buy-to-let enforcement is a clearly defined process which is simpler and costs less than the owner-occupied methodologies



The positive impact of buy-to-let



- Provision of high quality rental accommodation
 - tenure of first choice, not last resort
- Crucial contribution to private rented sector
 - provides flexible, affordable accommodation
 - allows realisation of changed lifestyle preferences
- Source of stability during market downturn
 - investors take long-term view
 - potential first-time buyers not forced into ownership before they can afford it
 - arrears low relative to wider mortgage market
- Realistic option for those who want to create an income source for their retirement

“ Buy-to-let mortgage lending has grown strongly in the last decade and has made an important contribution to meeting rising tenant demand”

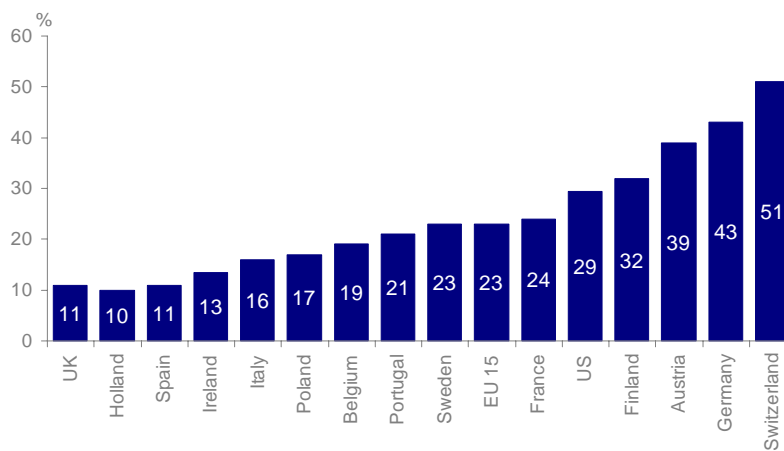
Council of Mortgage Lenders' Response to
Communities and Local Government Consultation Paper, October 2007

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UK private rented sector: international context



UK private rented sector small as a proportion of housing stock compared with other EU countries and USA



Sources: RICS / World Bank / CSO (Ireland) / American Housing Survey

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