

The Paragon Group of Companies PLC

Interim Results Presentation

Six months ended 31 March 2007



Agenda

- Section 1 Financial results
- Section 2 Current trading and outlook

- Appendix A Group overview
- Appendix B Buy-to-let investment case

Section 1

Financial results

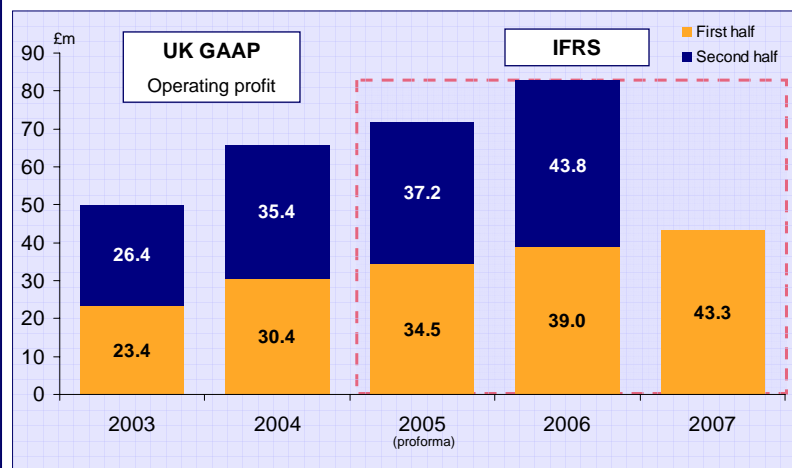
For the six months ended
31 March 2007



Financial highlights – six months ended 31 March 2007

Pre-tax profit + 11.0% £43.3m	Fully taxed EPS + 12.8% 27.3p	Interim dividend + 15.9% 8.0p
Buy-to-let lending + 44.9% £1.9bn	Buy-to-let assets + 45.0% £8.7bn	Fully taxed ROE 21.9%

Five year profit record



paragon

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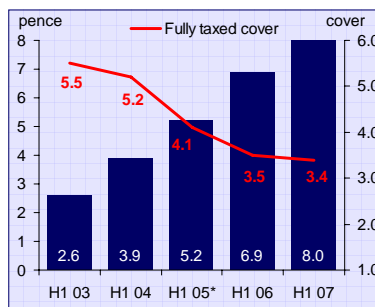
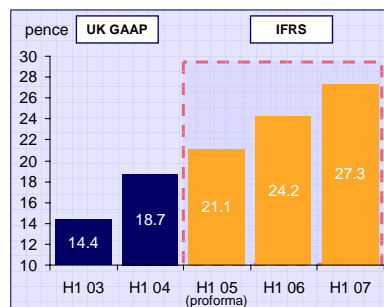
EPS and dividend increased

Fully taxed earnings per share

- ★ Earnings per share increased by 13%
- ★ Effective tax rate 29% (H106: 17%)

Dividend per share

- ★ 16% increase in the interim dividend
- ★ Dividend cover reduced



paragon

*H1 2005 cover adjusted for IFRS proforma

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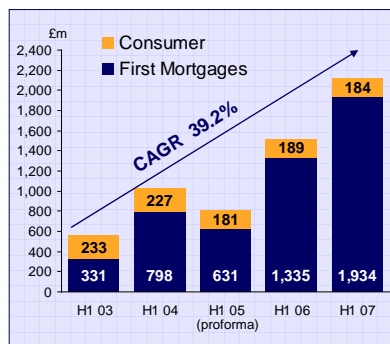
Capital management

- ✦ Buy-to-let growth strategy has driven capital re-alignment
- ✦ Dividend cover reducing to sector average
- ✦ Share repurchase programme of up to £40 million
- ✦ £36 million repurchased under programme to 31 March 2007
- ✦ Share buy-back programme to be reviewed once completed

New lending and loan assets

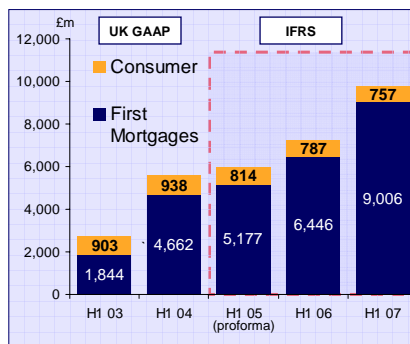
New lending

- ✦ 39% growth in new lending
- ✦ Buy-to-let lending increased by 45%



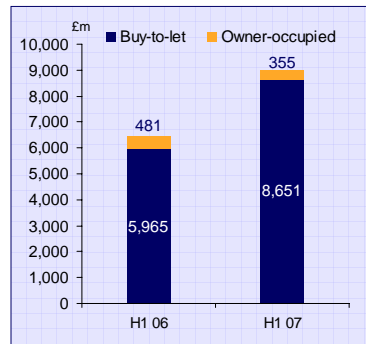
Loan assets

- ✦ Total loan assets 35% higher
- ✦ Buy-to-let assets increased by 45%

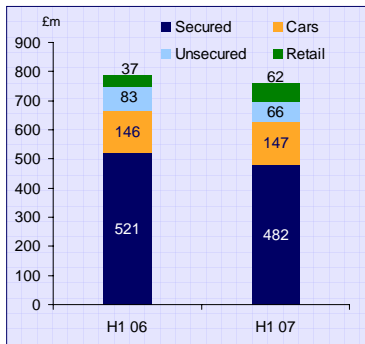


Segmental loan assets

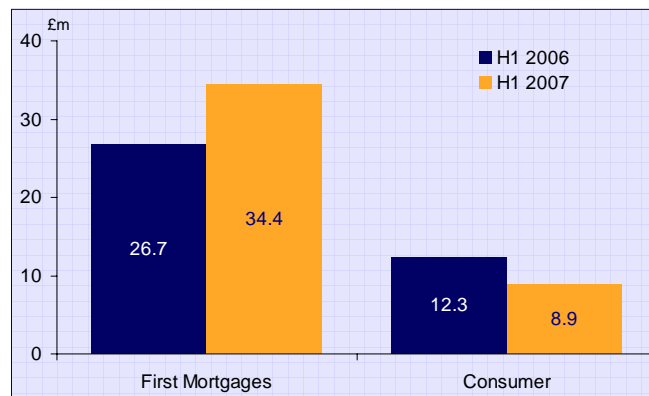
First Mortgages loan assets



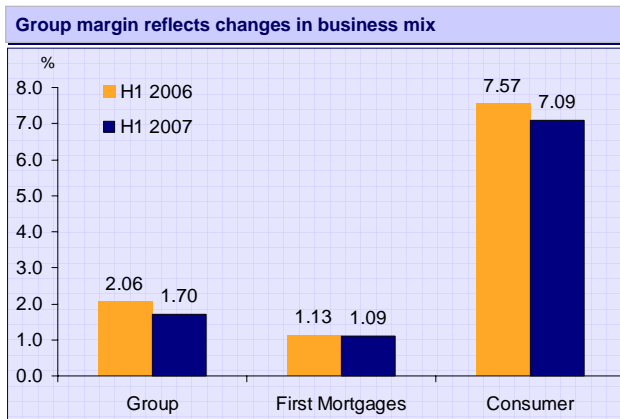
Consumer Finance loan assets



Segmental profit analysis



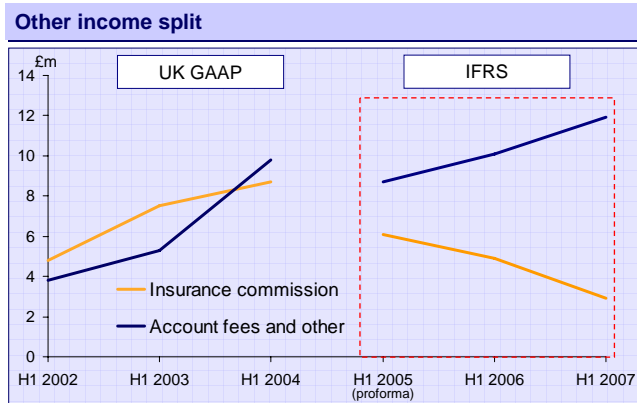
Interest margin



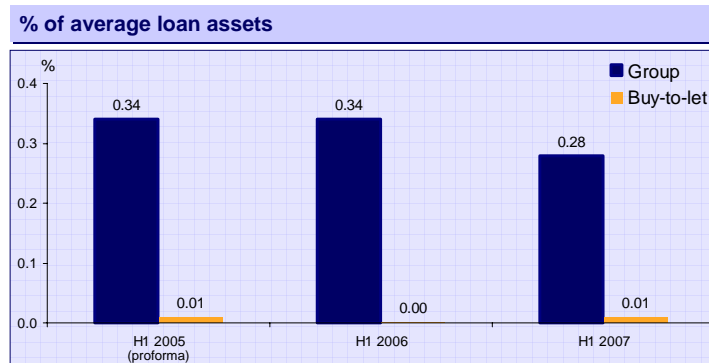
Funding

- ✦ Mortgage-backed securities
 - October 2006 - £1.5 billion (buy-to-let)
 - January 2007 - £269 million (owner-occupied)
 - March 2007 - £1.5 billion (buy-to-let)
- ✦ Average coupon 10bps for recent buy-to-let deals
- ✦ Best-ever pricing achieved for transactions reflecting high quality of loans
- ✦ No contagion from US sub-prime fall-out

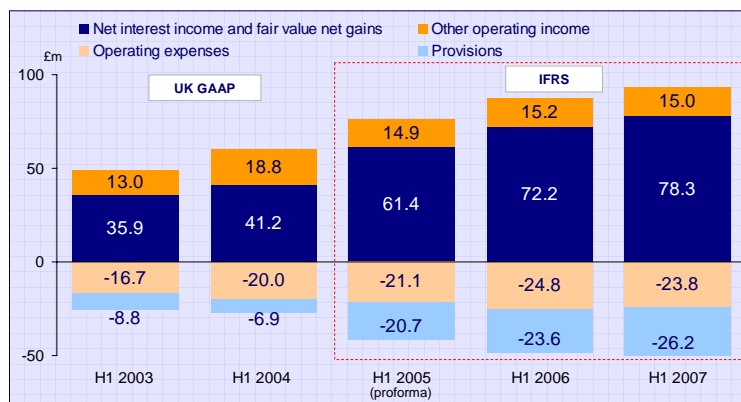
Other operating income



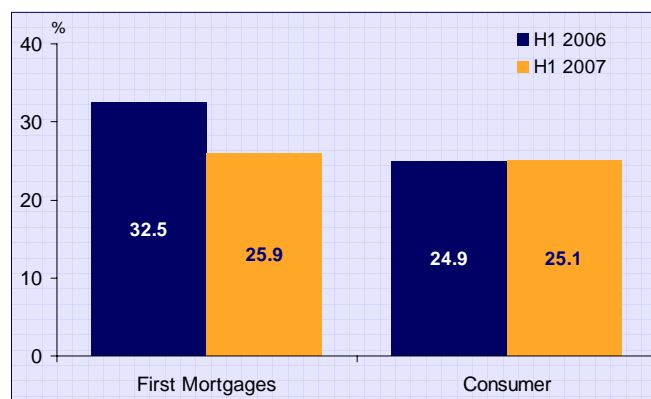
Bad debt charge



Operating profits



Segmental cost:income ratio

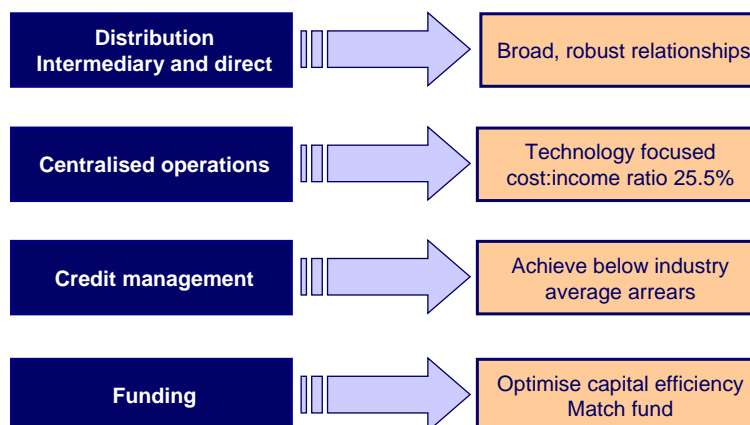


Section 2

Current trading and outlook



Paragon strategy



Strategic application

Risk controlled position in consumer
Strong buy-to-let growth

enables

Capital realignment
Exploitation of distribution value

Consumer finance

- ✦ Intense competition, often on credit issues
- ✦ Paragon risk focus has been to tighten lending criteria
- ✦ Bad debts remain below industry average
- ✦ RoC requirements being maintained
- ✦ Sub-prime originations being sold to Morgan Stanley
 - Incremental fee income
 - Good progress in pilot phase

Consumer finance

- ✦ Current strategy to continue:
 - Stable volumes
 - RoC being achieved
- ✦ Further progress expected in sub-prime sales to Morgan Stanley
- ✦ Segmentation for disposal of closed unsecured loan assets to optimise value
- ✦ Closed book balances down 20% to £66.4 million
- ✦ £3.5 million of balances sold in H1 2007
- ✦ Expect additional unsecured disposals going forward

First Mortgages

First mortgages strategy



- ✦ Buy-to-let remains core focus and engine for growth
- ✦ Owner-occupied mortgages scheme with Morgan Stanley:
 - Initial focus on sub-prime/self-cert
 - No assets to be retained
 - Utilise existing distribution and infrastructure
 - Incremental fee income

Key drivers to buy-to-let demand

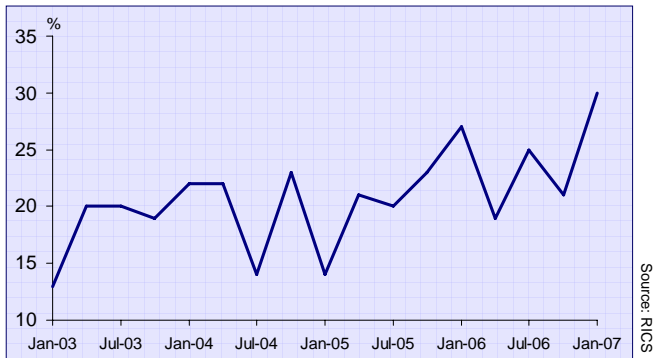


- ✦ Long-term returns (16 year investment horizon)
 - L/T HPI expectation (RPI +2.4% (Barker Report))
 - Compounding rental growth (wage inflation correlation)
- ✦ Pensions substitute/supplement
- ✦ Timing may be affected by sentiment
- ✦ Tenant demand

Tenant demand



Tenant demand rising at fastest pace for 9 years

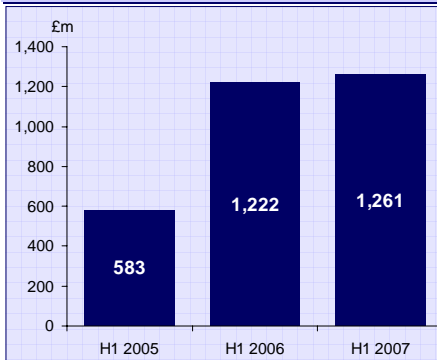


Short-term growth prospects



- ★ Pipeline gives strong start to H2 2007
- ★ Latest ARLA survey shows buoyant mood amongst landlords
- ★ 12% of buy-to-let landlords to buy more despite rising interest rates
- ★ 70% + of customers take fixed rate – already discounting rate rises

Buy-to-let pipeline

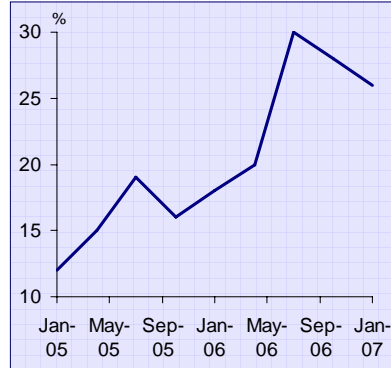


Rental demand supports buy-to-let affordability



- ✦ Landlords not driven by same affordability factors as owner-occupiers
- ✦ Tenant demand remains key driver
- ✦ Landlords increasing rents

Balance of surveyors reporting a rise in rents



Source: RICS

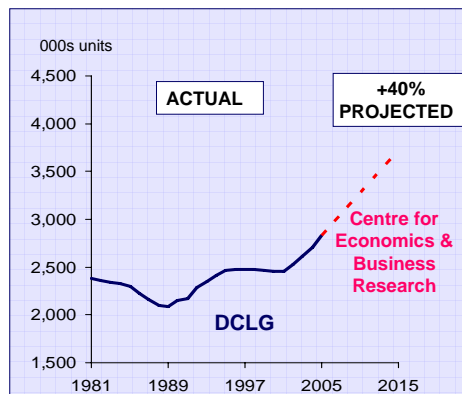
Long-term growth prospects



Underlying tenancy growth is forecast to increase the size of the rental market by up to 51% by 2021

"Buy-to-let, the revolution – 10 years on"

By Michael Ball, Professor of Urban and Property Economics
University of Reading Business School

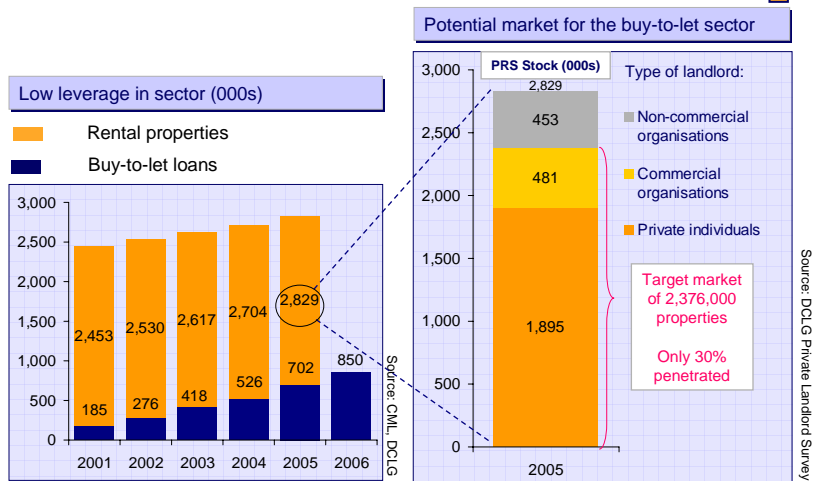


Government's housing policy

"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
13th May 2007

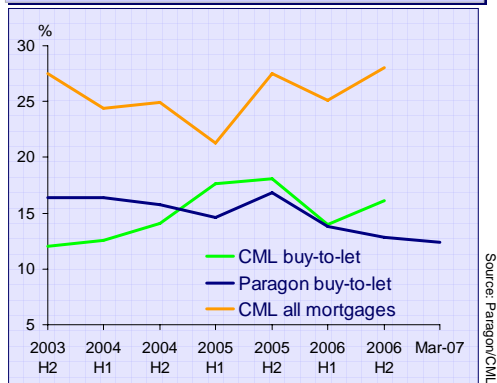
Low debt penetration



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

Paragon and market redemption rates

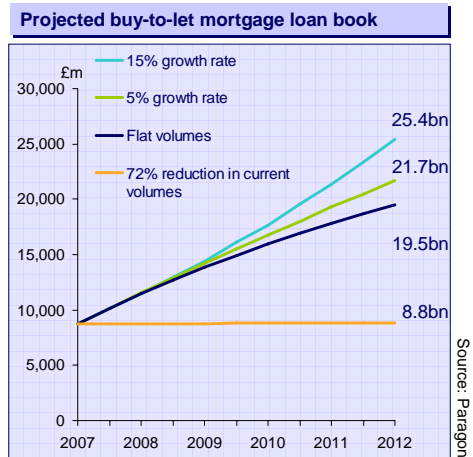


What happened in 2004-2005?

- ✦ Housing market stalled
- ✦ Paragon new lending volumes fell by 5%
- ✦ Redemption rate fell
- ✦ Balance sheet grew by 25%
- ✦ 90% of income from balance sheet
- ✦ Net interest income grew by 20%

Endowment effects – mortgage portfolios

- ✦ c90% of Group income derived from loans on balance sheet rather than new business activity
- ✦ New business CAGR for last five years at 55%
- ✦ Assuming constant redemptions, projected mortgage loan book growth based on four scenarios

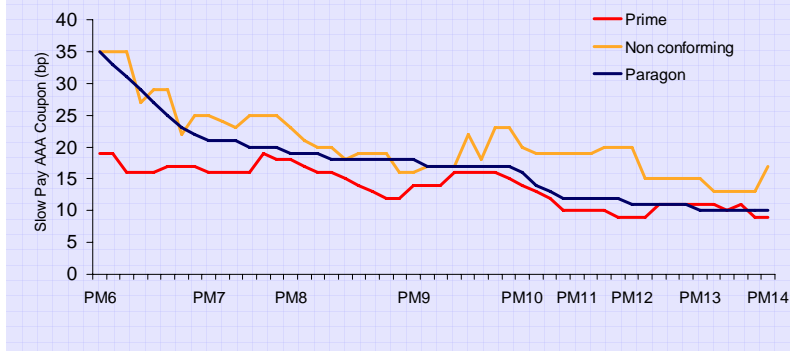


Competitive environment

- ✦ Product's 'coming-of-age' has increased attention on the sector
- ✦ Asset spread compression largely met by reduced debt costs
- ✦ Some new entrant noise evident, however, margins already considerably closer to prime
- ✦ Market shift from interest margin to fees
- ✦ Significant strength in intermediary relationships and franchise with customers – high levels of repeat business
- ✦ Marginal funding costs competitive

Funding costs

Coupon trends – October 2003 to date



★ Estimates of AAA tranches in other issuers' deals equivalent in term and rating to Paragon's "Paragon Mortgages" series

Landlord profile

Paragon Mortgages

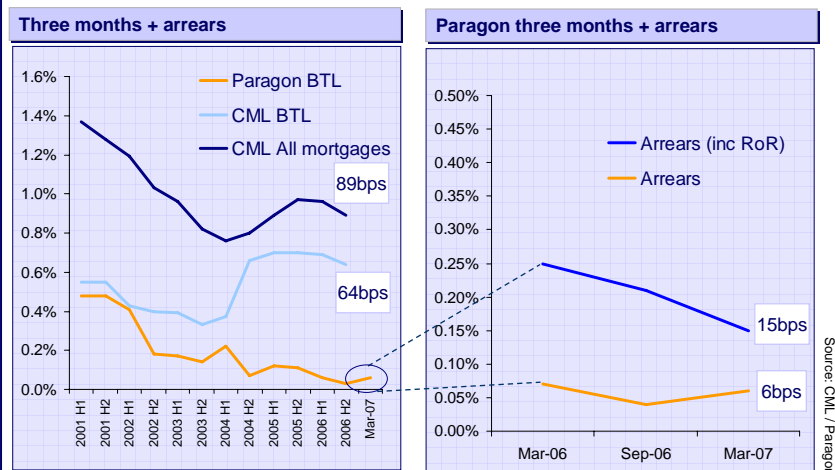
Age: 50
 13 years experience
 11 properties
 Average income £79,400
 Average value of portfolio £1.95m
 Overall LTV ratio 49%

Mortgage Trust

Age: 48
 9 years experience
 8 properties
 Average income £69,600
 Average value of portfolio £1.28m
 Overall LTV ratio 53%

Source: Paragon survey

Arrears analysis



Conclusions

- ✦ Buy-to-let to remain focus
- ✦ Elsewhere exploiting value based on credit and RoC
- ✦ Demand drivers still support short and long-term growth in buy-to-let
- ✦ Financial metrics provide strong ability to compete
 - Market leading cost:income ratio
 - Attractive marginal funding costs

Appendix A

Group overview



Paragon Group overview

Specialist lender

First
Mortgages

Consumer
Finance

Loan assets

£9.0 billion

£0.8 billion

Market
capitalisation

c £660m

FTSE 250

Capital
management

Fully taxed ROE 21.9%
Dividend growth 15.9%

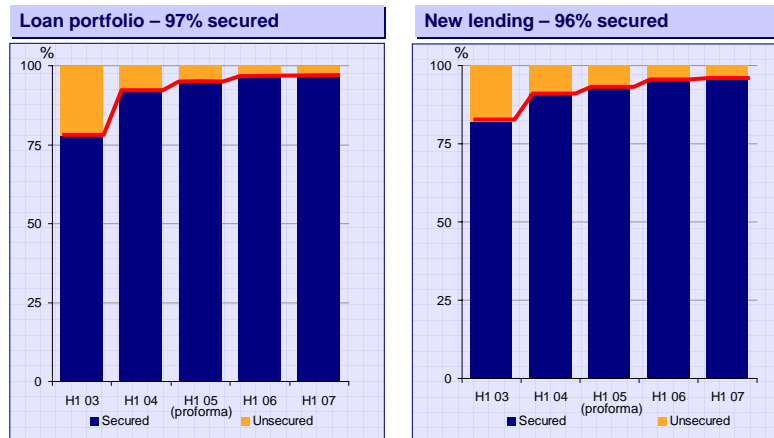
£40m share buy-back
programme

Most established UK
securitisation issuer

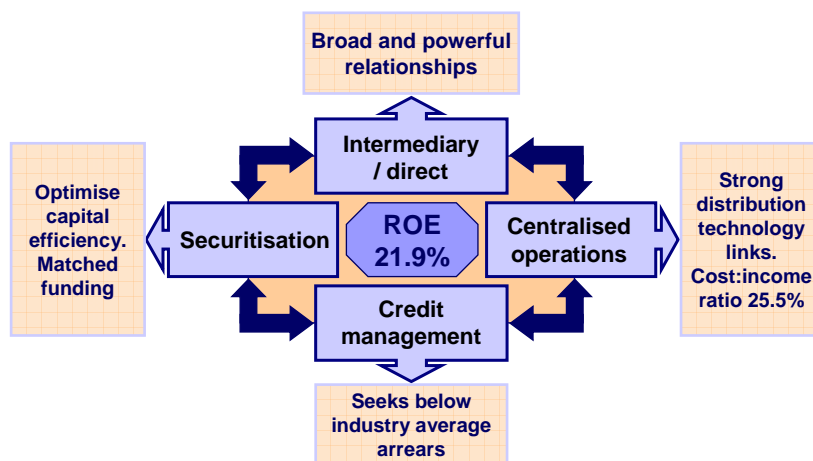
52
transactions

£18.5 billion

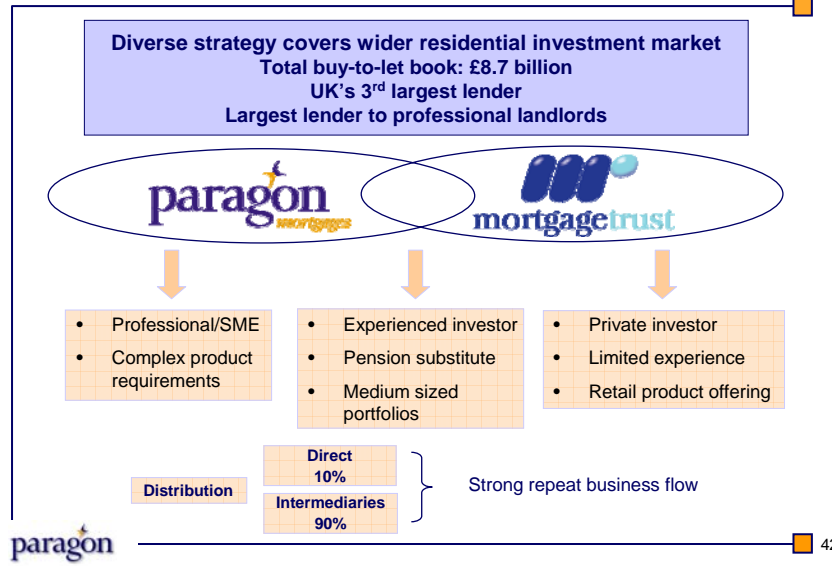
Business mix



Business model



Paragon buy-to-let strategy



PRS and buy-to-let market

- ✦ PRS 32% real growth over last 15 years
- ✦ PRS units grew by 8% in the last two years, during which time total housing stock grew by only 1.6%
- ✦ New lending in 2006 - £38.4 billion – 11% of all mortgages
 – 2005 - £24.5 billion
- ✦ High socio-economic group customers
- ✦ £95 billion mortgage debt outstanding
- ✦ Excellent credit quality with longer average loan life
- ✦ Under-gearred sector

CML top 10 buy-to-let lenders



2006	by Gross Advances	by Balances Outstanding
1	Birmingham Midshires	Mortgage Express
2	Mortgage Express	Birmingham Midshires
3	Paragon Group	Paragon Group
4	GMAC	Cheltenham & Gloucester
5	Northern Rock	Bristol & West
6	Mortgage Business	Northern Rock
7	Cheltenham & Gloucester	Capital Home Loans
8	UCB Home Loans	Mortgage Business
9	Capital Home Loans	Barclays - Woolwich
10	Bristol & West	Mortgage Works

Consumer finance strategy



Secured H1 2007	Point of Sale H1 2007
Loan book £482m New lending £103m	Loan book £208m New lending £81m
<ul style="list-style-type: none"> All lending secured by mortgages on residential property PPF targets prime customers Expanding into direct marketing channels 	<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 	

Securitisation and funding



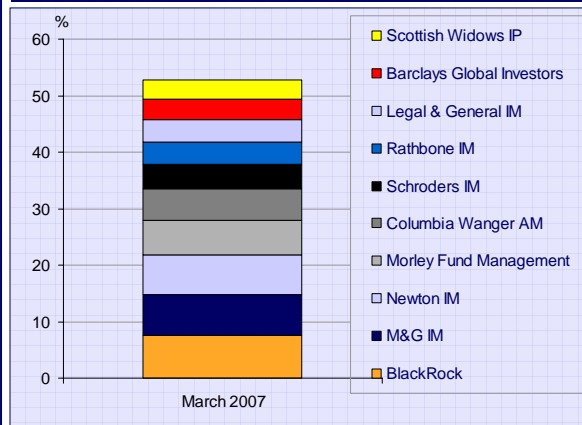
7% callable subordinated bond	£120m	Funding activity Six months to 31 March 2007
Corporate facility	£280m	
Warehouse facility	£2.3bn	
Special purpose vehicles	£9.9bn	

- ✦ October 2006 – PM13 - £1.5 billion
- ✦ January 2007 First Flexible No 7 - £269 million
- ✦ March 2007 – PM14 - £1.5 billion
- ✦ Best-ever pricing

Shareholder structure



Top ten shareholders (% of shares held at period end)



- ✦ 100% free float
- ✦ Management interest 5%
- ✦ Corporate brokers:
 - ABN AMRO
 - UBS
- ✦ Analyst coverage:
 - ABN AMRO
 - Bridgewell
 - Cazenove
 - Citi
 - Credit Suisse
 - HSBC
 - Keefe Bruyette & Woods
 - Shore Capital
 - Teather & Greenwood
 - UBS

Source: UBS

Management biographies



Robert G Dench, Chairman – Joined the Group as a non-executive director in 2004. He was appointed Chairman in February 2007. Previously held a number of senior positions within Barclays and served on the boards of Barclays' Retail Bank and Private Client businesses. He is also a non-executive director of AXA UK plc, AXA Ireland plc and Clipper Ventures plc.

Nigel S Terrington, Chief Executive – Joined the Group in 1987 and became Chief Executive in June 1995, having held the positions of Treasurer and Finance Director. Prior to Paragon, he worked in investment banking. He is a Board member of the FLA and Chairman of the FLA's Consumer Finance Division Management Committee. He was previously the Chairman of IMLA.

Nicholas Keen, Finance Director – Joined the Group in May 1991 and became Finance Director in June 1995 having previously held the position of Treasurer. Prior to joining the Group he worked in Corporate Banking, Treasury and Capital Markets. He is Chairman of the Credit Committee.

John Heron, Director of Mortgages – Joined the Group in 1986, was appointed Marketing Director in 1990, and an Executive Director of the Paragon Group in 2003. In 1994 he played a pivotal role in re-establishing the Group's mortgage lending operations and is a member of the CML's Executive Committee.

Pawan Pandya, Chief Operating Officer - joined the Group in December 1988. He was appointed as Chief Operating Officer in July 2002, and as an Executive Director of Paragon Group in 2003. He is responsible for operational and IT areas of the Group. Prior to joining Paragon, he worked at Natwest in London.

Appendix B

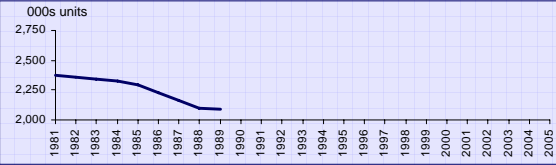


Buy-to-let investment case

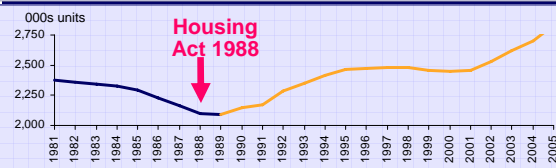


Private rented sector

The private rented sector had been in long-term decline until 1988...



... and since 1989 it has expanded



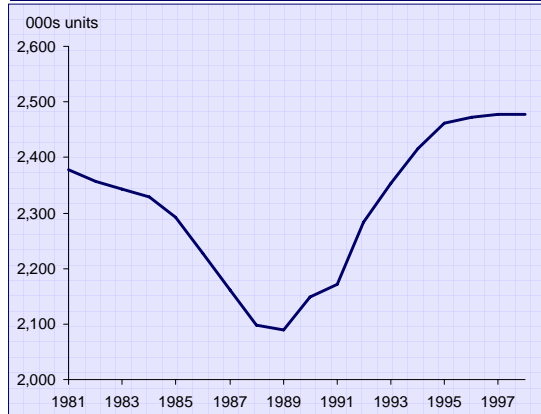
“Modern PRS was founded at that time through a combination of changing Government policy and social trends”

Source: Department for Communities and Local Government

What happened in 1990?

- ✦ 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

Private rented sector

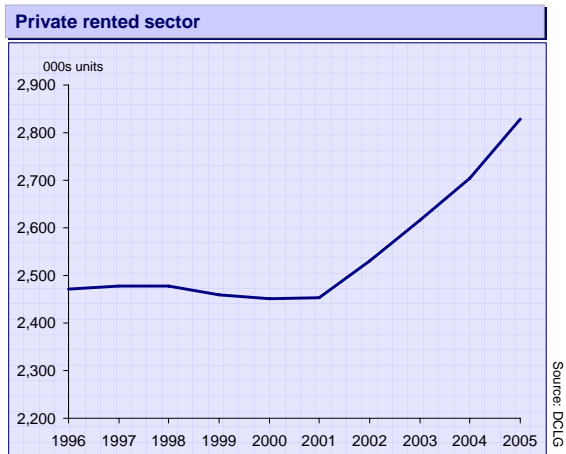


Source: DCLG

Repeating in early 2000's



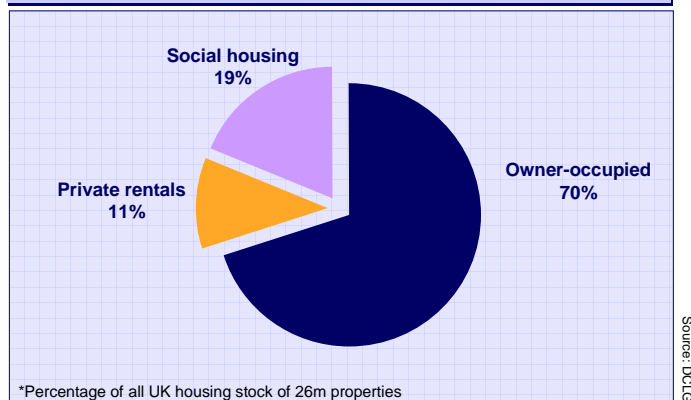
- ★ House price inflation has priced-out first-time buyers
- ★ Private renting has increased rapidly
- ★ Strong tenant demand supports rental incomes
- ★ Professional landlords remain committed to the market



Private rented sector today



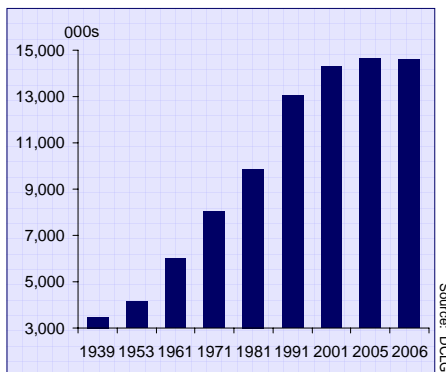
Private rented sector accounts for 11%*



Household trends

- ✦ Between 1971-2006:
 - UK households increased by 30%
 - Population increased by 8%
- ✦ Significant increase in the proportion of one-person households:
 - 1971: 18%
 - 2006: 29%
- ✦ Owner-occupiers fell in 2006 for the first time since records began in 1939

Owner-Occupiers in England



Government policy on private rented sector

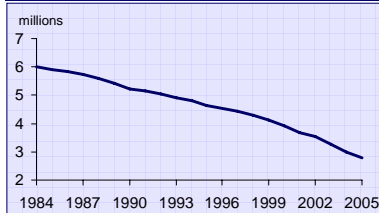
Government policy on private rented sector

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

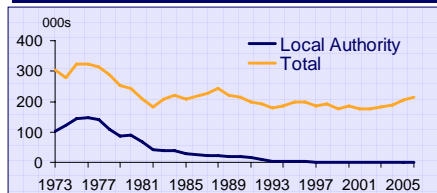
Source: DCLG

- ✦ Tenure neutral housing policies
- ✦ MIRAS removed from owner-occupation
- ✦ Stamp duty imposed
- ✦ Reform of landlord / tenant legislation
 - Housing Act 1988
- ✦ Fall in local authority housing
- ✦ Housing Association stock flat
- ✦ Protection of tenants' deposits under Tenant Deposit Protection Schemes

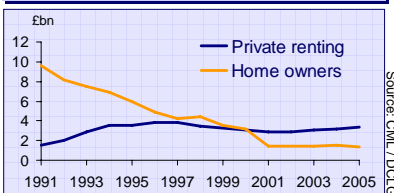
Dwelling stock rented from local authorities



Housing completions – UK



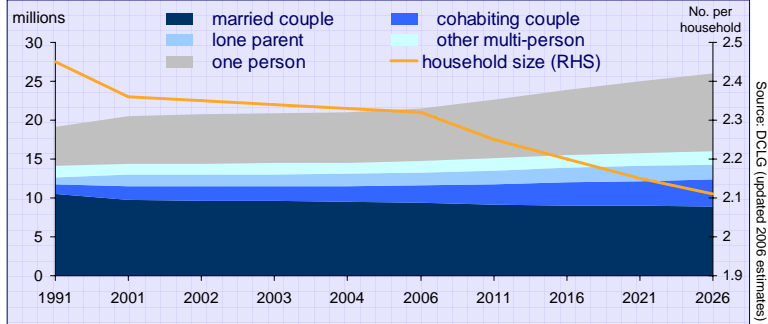
Government help with housing costs



Demographic factors

- ✦ Inward immigration
- ✦ Ageing population
- ✦ Higher education policy
- ✦ Job mobility
- ✦ Lifestyle choices

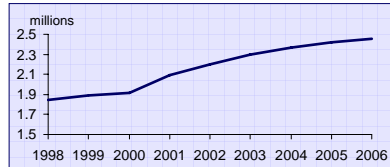
Household types and size, England



Rising student population

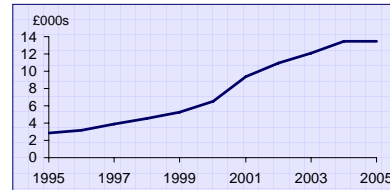
- ✦ UCAS applications for university places up 28% since 2000
- ✦ Government committed to increasing numbers in higher education – 50% by 2010 (currently 42%)
- ✦ Student debt up 380% in last ten years
- ✦ 2006 intake expect to pay £33,500 to obtain a degree, according to NatWest survey
- ✦ Research by UNITE shows that universities are only able to supply accommodation to 25% of students

Students in higher education



Source: Higher Education Statistics Agency

Student debt at graduation



Source: Barclays Student Survey

Inward migration (i)

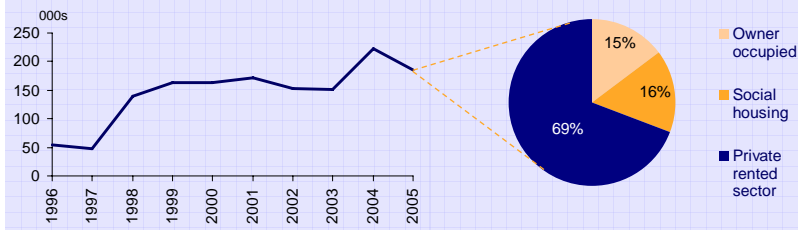
- ★ In 2005, 565,000 people migrated into the UK
- ★ Net migration was 185,000 - slightly below the record level seen in 2004
- ★ Increase largely due to EU Accession
- ★ Inward migrants have a greater propensity to rent

"...only one fifth of inward migrants become home owners within three years of living in the UK"

Source: CML

Net migration to the UK

Tenure within five years

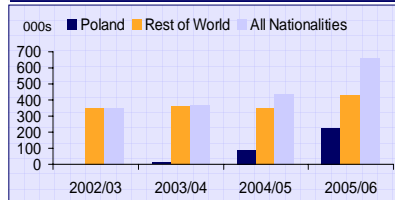


Source: ONS/CML

Inward migration (ii)

- ★ Migrants from EU accession countries have boosted the number of workers obtaining a UK national insurance number

Overseas workers obtaining NI number



Source: ONS

Net migration forecasts

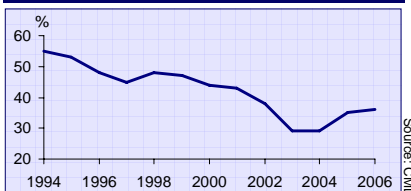


Sources: Capital Economics, Government Actuary's Department, ONS

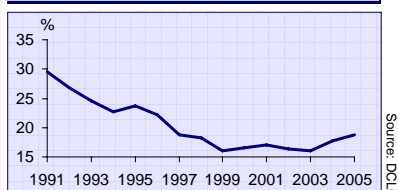
Decline of first-time buyers (i)

- ★ FTB in decline due to:
 - Affordability constraints
 - Lifestyle choices
 - Rising student numbers
- ★ Average age of FTB now 34
- ★ Increases demand for rented accommodation

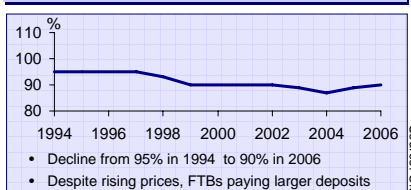
First-time buyers as % of all buyers



% of first-time buyers under 25



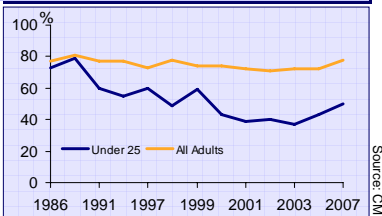
First-time buyers LTV



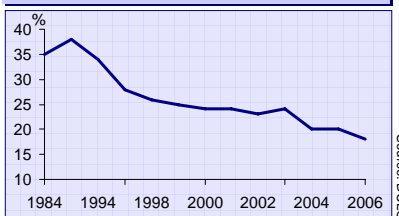
Decline of first-time buyers (ii)

- ★ The % of under 25s aspiring to home-ownership recovered slightly during the past five years
- ★ Actual home ownership rates still declining for under 25s, showing aspirations are not entirely realistic
- ★ Survey found first-time buyers delaying until mid 30s
- ★ The proportion of under 25s who are home owners has halved since 1988
- ★ In 2004, 43% of under 25s aspired to be home owners in 2 years' time
- ★ In 2006, the actual homeownership rate for the under 25s was 18%
- ★ 58% of under 25s failed to achieve their aspiration of homeownership

% under 25's with home ownership aspiration



% under 25's who are home owners



Decline of first-time buyers (iii)



✦ Findings from the extensive GMAC survey of first-time buyers:

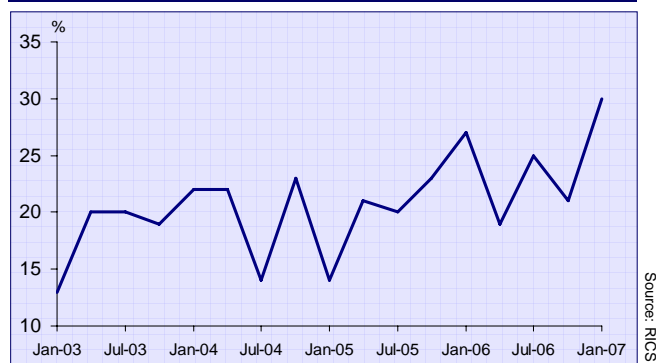
- Majority of non-homeowners felt “comfortable” with buying their first property over the age of 30
- Over 50% of non-homeowners felt that not owning a property by the age of 30 was no cause for concern
- 50% gave the reason for postponement as lifestyle - under 50% mentioned the affordability of a deposit
- Renting seen as giving a range of benefits

Source: GMAC

Tenant demand



Tenant demand rising at fastest pace for 9 years

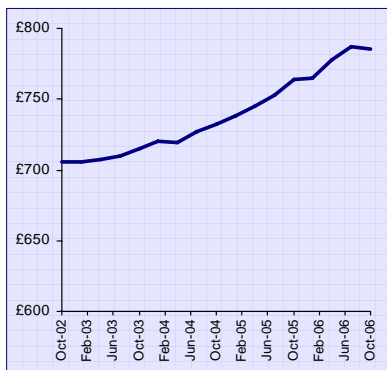


Source: RICS

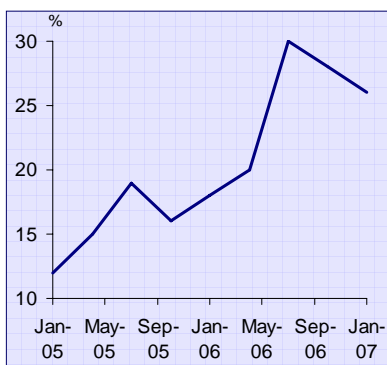
Rental demand rising



Rents per calendar month



Balance of surveyors reporting a rise in rents



Source: RICS

Source: RICS

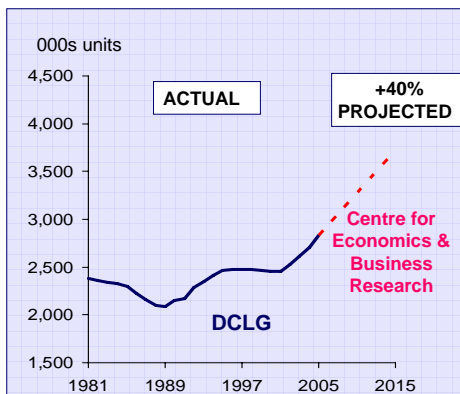
Long-term growth prospects



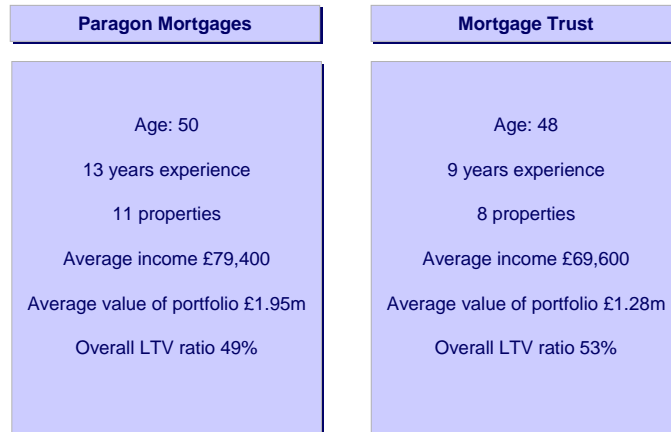
Underlying tenancy growth is forecast to increase the size of the rental market by up to 51% by 2021

“Buy-to-let, the revolution – 10 years on”

By Michael Ball, Professor of Urban and Property Economics
University of Reading Business School



Landlord profile

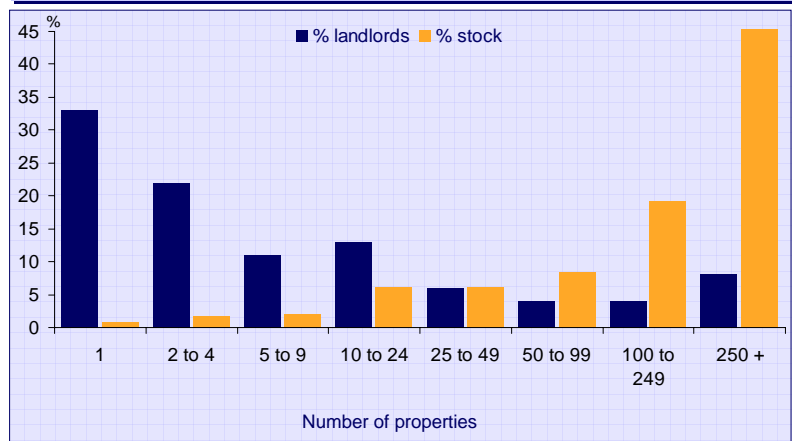


Source: Paragon survey

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

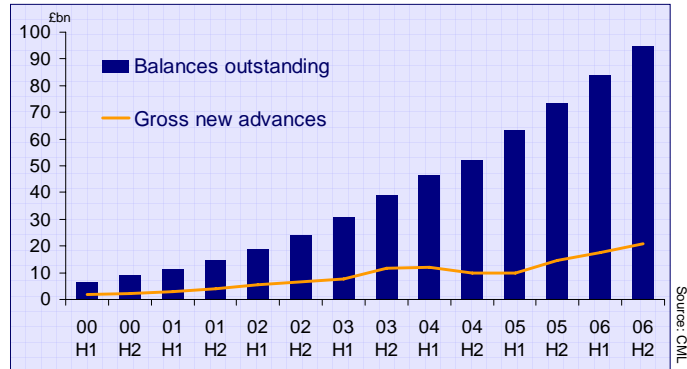


55% of landlords own 3% of stock <-> 12% of landlords own 75% of stock

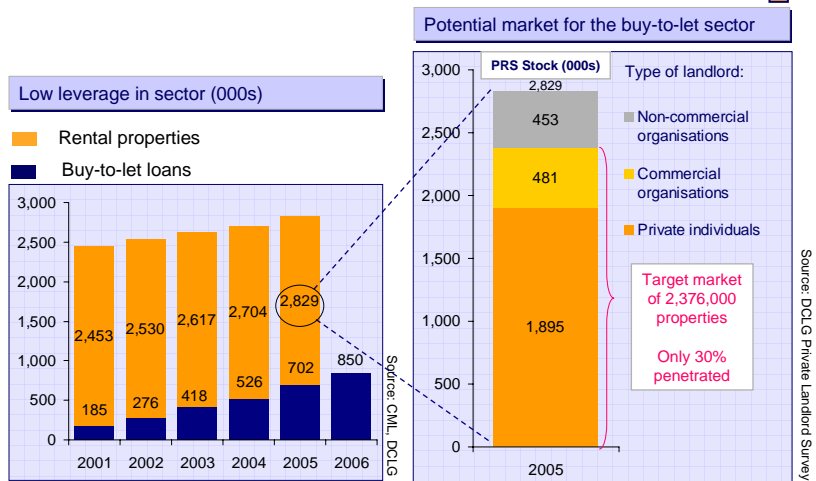


Source: DCLG Survey

UK buy-to-let market

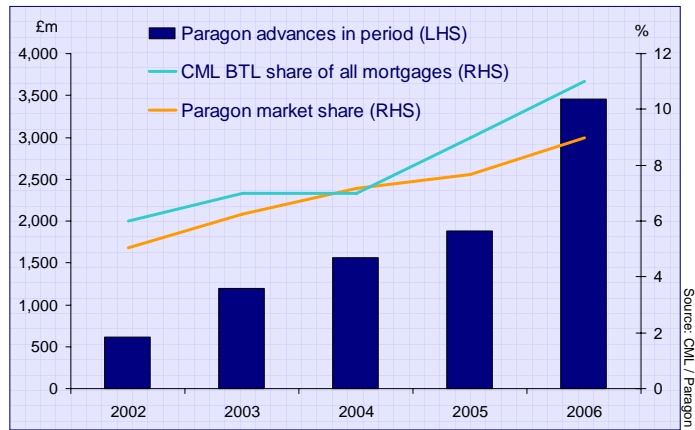


Low debt penetration



Market share

Paragon share of buy-to-let mortgage market



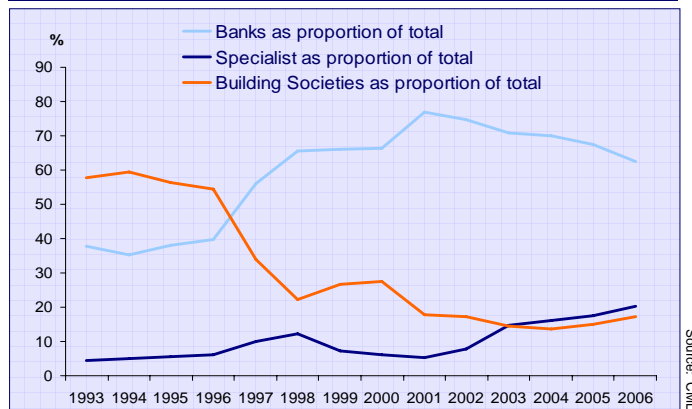
paragon

(Note: Figures are for calendar years)

70

Decline of building societies and rise of specialist lenders

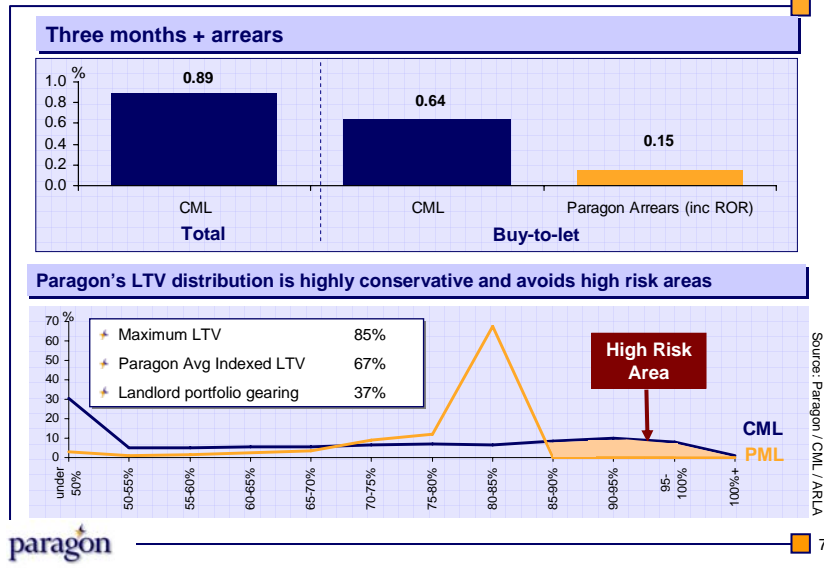
Specialist lenders now account for 20% of total lending



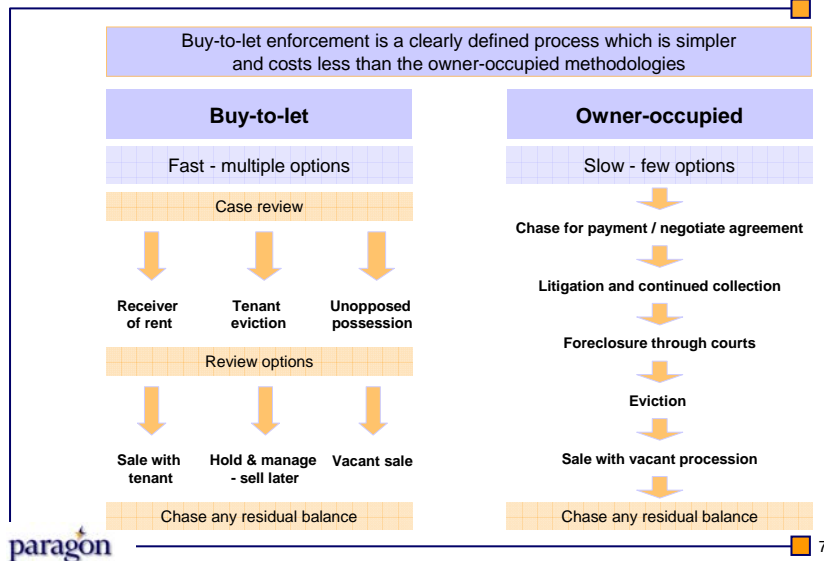
paragon

71

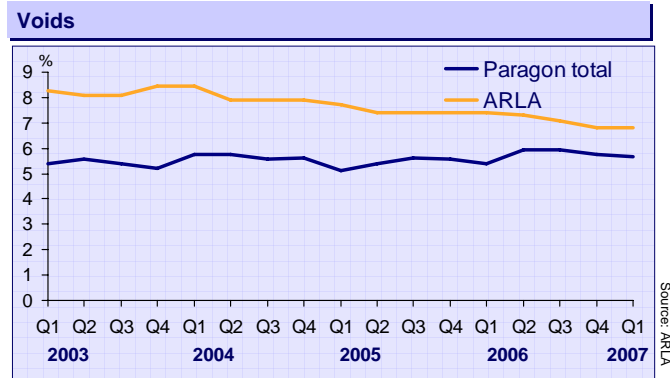
Credit quality – buy-to-let



Buy-to-let enforcement process

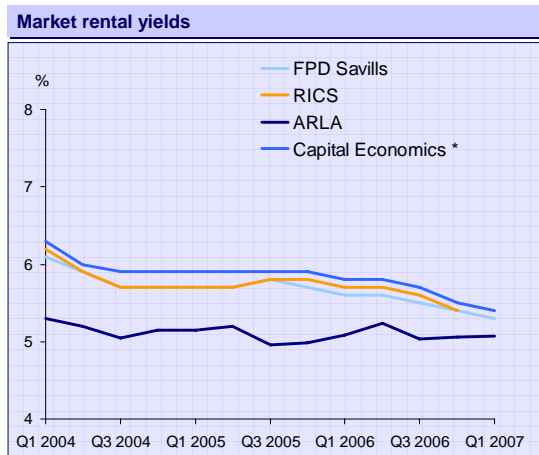


Voids



Rental yields

- ★ Most sources show yields have fallen gradually over past two years, from an average of 5.7% to an average of 5.5%
- ★ ARLA yields however are currently the same as they were 12 months ago
- ★ Only measures yield on day one, takes no account of rental growth



*(RPI Rent Index; Average of ARLA, RICS and Paragon)

Landlords committed to buy-to-let



- ★ Latest ARLA survey shows buoyant mood amongst landlords - key data showing significant improvement
- ★ As a subset of overall mortgage market, buy-to-let seeing strong volume growth
- ★ Buy-to-let contributing an ever-bigger share of overall volumes

86% of ARLA landlords said they would hold their buy-to-let investment even if house prices fall

65% said average life expectancy of their property investment is 10 years or more

58% intend to acquire further buy-to-let investments during the next 12 months

Source: ARLA Review & Index of Residential Investment (Q1:2007)

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