

The Paragon Group of Companies PLC

Interim Results Presentation

Six months ended 31 March 2008



Section 1

Six months ended 31 March 2008

- Objectives:
 - Stabilise funding position
 - Protect franchise
 - Manage costs

Protecting embedded value

- Rights issue raised £287 million – closed end February 2008
- Repaid £280 million banking syndicate
- Warehouse facility successfully termed out
- All assets now matched funded – books performing well

Maintaining franchise



- Core BTL intermediary relationships maintained
- Banks' product management creating chaos and uncertainty for brokers
- Contrast Paragon's orderly and controlled new business flow reduction
- Enhanced customer retention management
- Enhanced customer further advance activities
- Other franchise initiatives under development

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Managing costs



- Costs reduced
 - 30% reduction in headcount
 - Benefit in H2, costs c20% lower on running basis
- Market-leading cost efficiency
- Withdrawal from car and retail markets
- £11 billion assets under management

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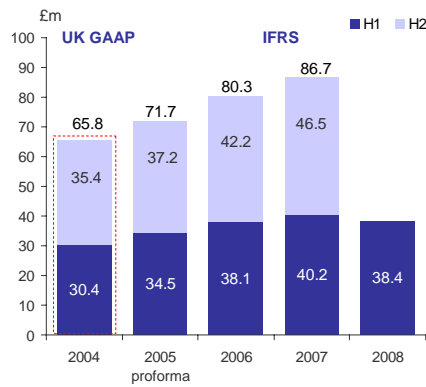
- Funding stabilised
- Business cash generative
- Dividend reinstated
- Developing new opportunities

Section 2

Financial results

Six months ended 31 March 2008

Five year profit record (underlying basis)

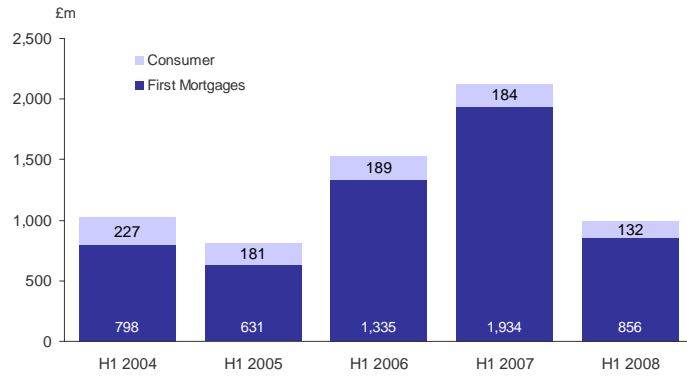


- Effective tax rate 30.3% (2007 H1: 29.1%)
- Interim dividend 1.0p per share (2007 H1: 8.0p)
- Shareholders' funds £612.8m (2007 H1: £293.6m)

Exceptional costs

- Exceptional costs:
 - Standby underwriting fees £4.1m
 - Redundancies £1.5m
 - Other professional costs £1.6m
- Fair value hedge exposure arises from IFRS defined "ineffectiveness":
 - Sharp movements in yield curve have resulted in negative value
 - Non-cash item
 - Trend to zero

New lending



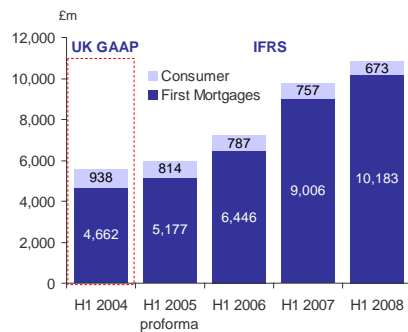
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Loan assets

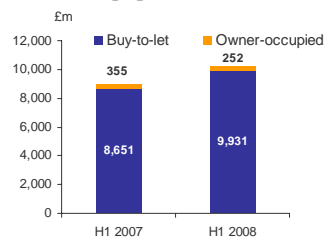


Loan assets

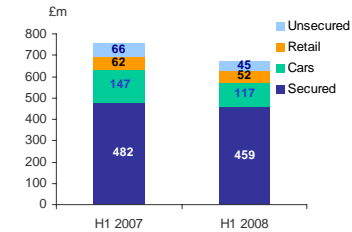
- Total loan assets 11% higher
- Buy-to-let assets increased by 15%



First mortgages loan assets

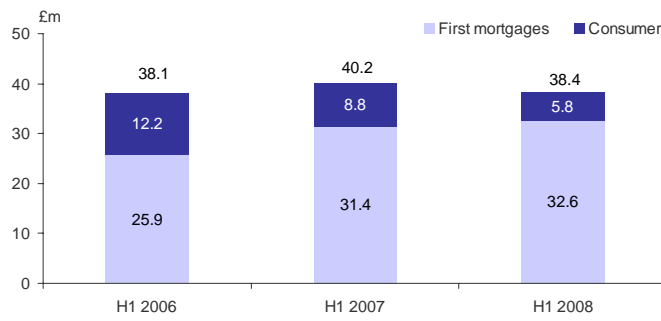


Consumer finance loan assets



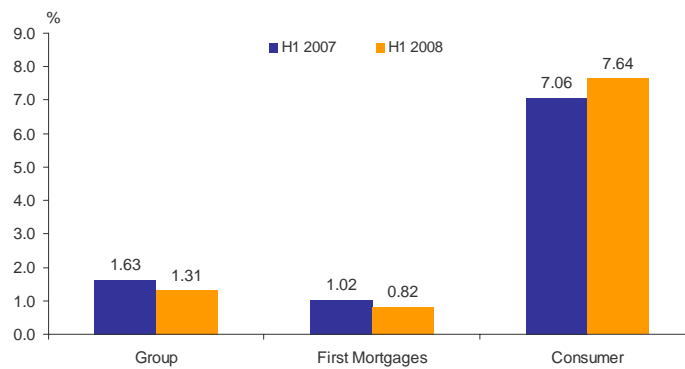
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Segmental profit analysis (underlying basis)



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Net interest margin

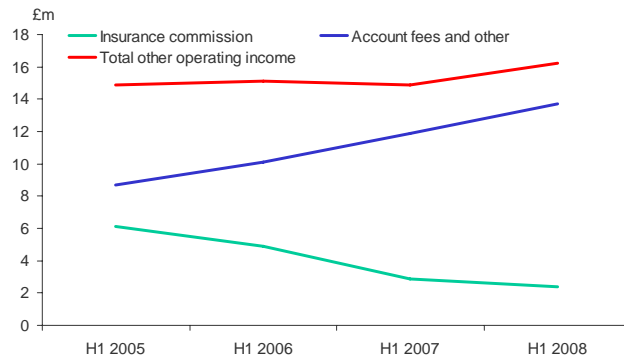


• Mortgage margins affected by funding dislocation

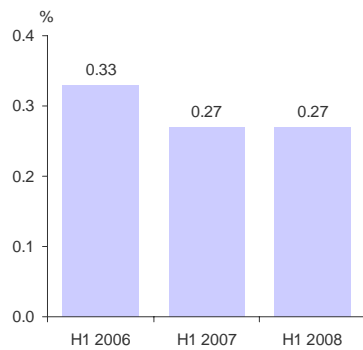
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Other operating income

Other income split

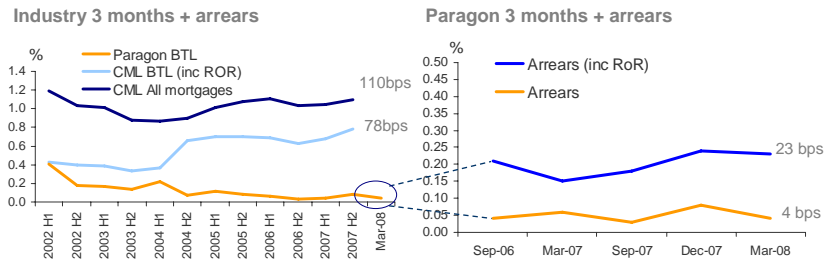


Impairment charge as % of loan assets



- Overall arrears low and stable
- Majority of charge relates to unsecured loan book
- Buy-to-let charge 3bps

Buy-to-let arrears



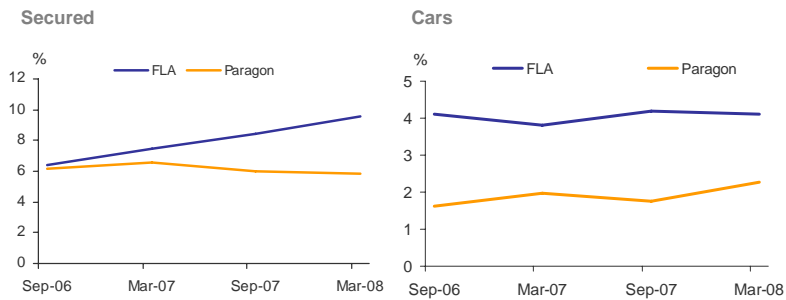
- Industry arrears up slightly due to rising mortgage costs
- Paragon arrears remain significantly lower than BTL and mortgage industry
- Receiver of rent process remains effective for managing arrears

Source: Council of Mortgage Lenders / Paragon

(Note: Figures are for calendar years)

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Consumer finance arrears



Paragon consumer finance arrears lower than industry averages

Source: Paragon / FLA

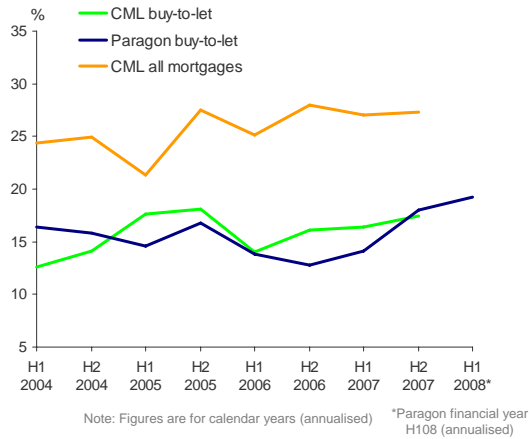
Note: Paragon figures as at Mar 08, FLA figures as at Feb 08

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Buy-to-let redemption rates



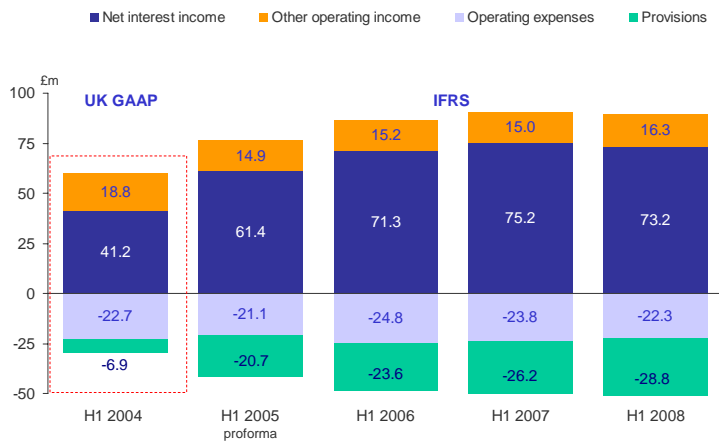
- Libor resettlings over period caused slight increase
- Lower housing transactions
- Enhanced embedded lifetime customer value
- Average investment hold period 17 years (ARLA Q1 2008)
- Reduced level of alternatives in the market



Source: Paragon / Council of Mortgage Lenders

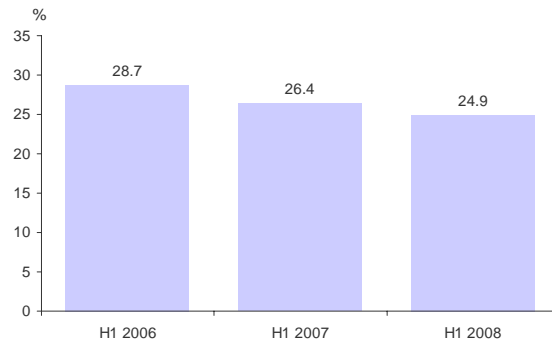
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Operating profits (underlying basis)



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Cost:income ratio (underlying basis)



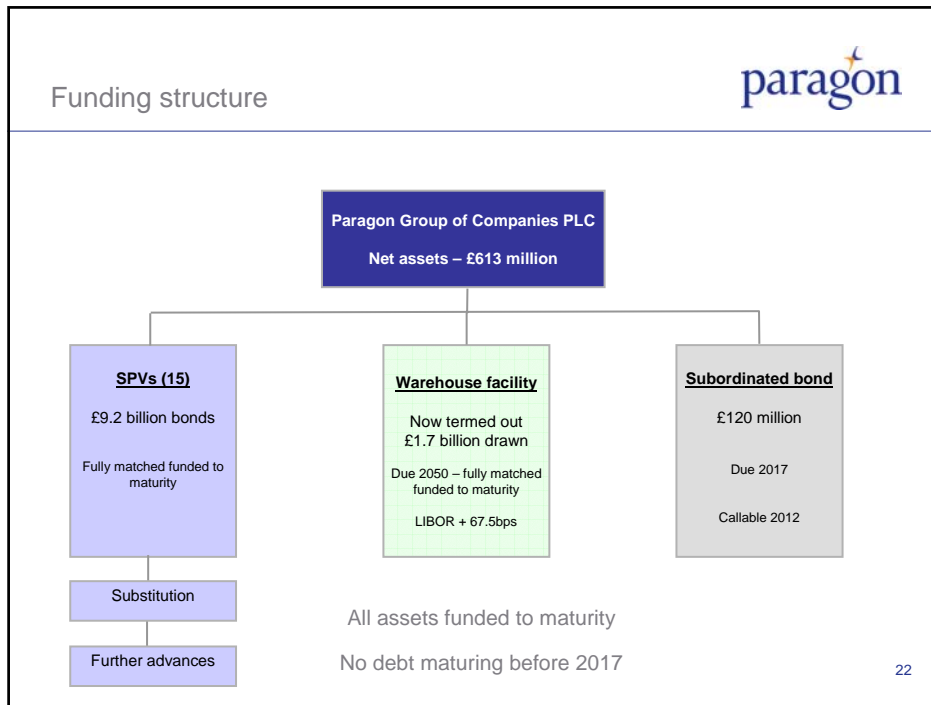
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Section 3

Outlook

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- 2008 will see a slower housing market, however:
 - Landlords experiencing strong rental growth (balance of surveyors reporting a rise in rents in Jan-08: 27%)
 - ARLA reports that tenant demand continues to outstrip rental supply (50% of agents reporting more tenants than properties)
 - Lower levels of housing activity, particularly FTB, will boost rental demand
 - Continued growth in UK households – migration, students, delayed house purchasers etc
 - Rising demand for social housing in this environment (2 million shortage by 2010 – LGA)
 - RICS reports only 2% of landlords planning to sell at expiry of tenant leases (Apr-08)

- Competition increasing rates and tightening criteria – likely to result in lower redemptions
- Credit performance expected to remain robust
 - Tenant demand higher – voids low
 - Paragon average indexed LTV 66%, landlords' portfolio LTV 36%
- Fundamentally, long-term growth characteristics and prospects for BTL remain sound

- Secured second mortgage lending well positioned
 - funding in place via substitution capacity in existing SPVs
 - reduced competition
 - tightened criteria
 - generating good returns
- Withdrawn from areas with inadequate returns (cars, retail)

Strategy



- Origination volumes will remain low until clarity over future funding capacity and pricing
- Continued focus on controlling costs
 - Cost efficiency already strong
 - Reduced cost running rate
 - Key new business resources redeployed on income generating activities
 - £11 billion assets under management
- Buy-to-let:
 - Protecting franchise
 - Maintaining close relationships with brokers
 - Forward flow
 - Surveyors 3rd party service provision
 - Retention activities
 - Further advances to existing customers
- Consumer:
 - Maintaining second mortgage position
 - Continued focus on credit criteria
 - Optimise returns
- Developing further opportunities to create value and new sources of income

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Conclusion



- Funding position stabilised
- Strong financial position
 - All assets matched funded
 - £732 million total capital, capital ratio equivalent 12.7%
 - Cash generative
- Dividend reinstated – continue to keep capital position under review
- Portfolio performance remains strong
- Franchise protected
- Long-term private rented sector prospects remain strong
- Developing new initiatives and opportunities

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