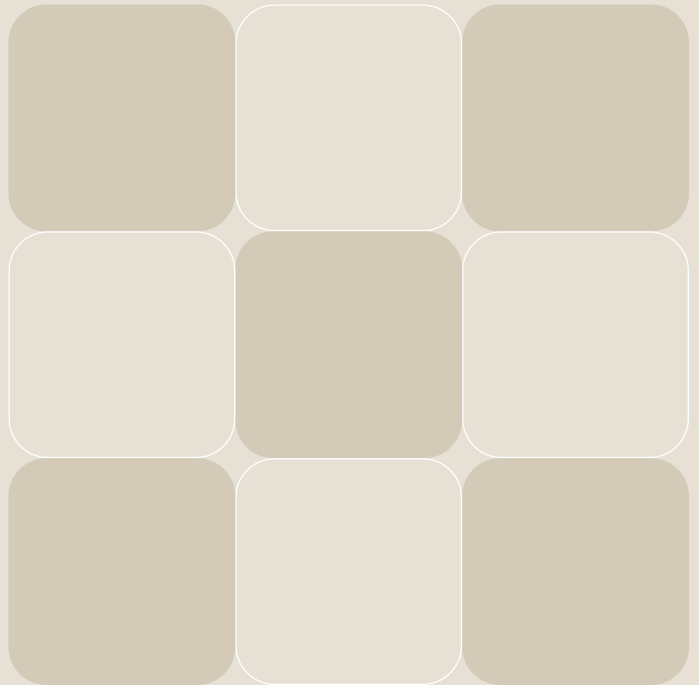


Interim Report
Six months ended 31 March 2007



“The excellent results achieved by the Group for the first six months of the financial year reflect the success of our brands in the expanding buy-to-let market. Over the past ten years we have established a reputation as the specialist buy-to-let lender and have built a high quality portfolio in a market where short-term demand and long-term demographic trends point to sustainable growth.”

Nigel S Terrington
Chief Executive

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Financial highlights

11.0%

Increase in pre-tax profit to £43.3 million (2006 H1: £39.0 million) - maintaining profit growth record for the past 12 years

12.8%

Growth in fully taxed earnings per share to 27.3p (2006 H1: 24.2p)

15.9%

Rise in dividend per share to 8.0p (2006 H1: 6.9p)

25.5%

Cost:income ratio falls to 25.5% (2006 H1: 28.4%) - continued focus on operating efficiency

44.9%

Increase in buy-to-let advances to £1,934.1 million (2006 H1: £1,334.5 million)

45.0%

Increase in buy-to-let portfolio to £8,651.1 million (2006 H1: £5,964.9 million) - arrears low and stable

Interim financial report

The six months ended 31 March 2007 has seen further strong growth in Group profits, business volumes and loan assets, attributable to activity within the buy-to-let business. During the period, the Group has continued its strategy of strongly promoting buy-to-let activity whilst limiting consumer lending exposures.

During the period, profit on ordinary activities before taxation increased by 11.0% to £43.3 million from £39.0 million for the first half of 2006. Earnings per share were 27.7p (2006 H1: 28.8p), the reduction from last year resulting from the increase in the corporation tax charge rate from 16.7% to 29.1%. On a fully taxed basis earnings per share increased to 27.3p from 24.2p, an increase of 12.8% (note 4).

Total loan advances were 38.9% higher at £2,118.2 million compared with £1,525.0 million for the first half of 2006. At 31 March 2007, loan assets were £9,763.3 million (note 5), compared with £7,232.9 million at 31 March 2006, a year on year increase of 35.0%.

The Board has declared an interim dividend of 8.0p per share, payable on 27 July 2007 to shareholders on the register at 29 June 2007, an increase of 15.9% from last year's interim dividend of 6.9p per share.

The Group is organised into two major operating divisions: First Mortgages, which includes the buy-to-let and owner-occupied first mortgage assets and other sources of income derived from first charge mortgages; and Consumer Finance, which includes secured lending, car and retail finance and the residual unsecured loan book. These divisions are the basis on which the Group reports primary segmental information. This is a change from the basis reported in 2006 in that the closed, owner-occupied first mortgage book, which at 31 March 2007 amounted to £354.9 million, and the closed, unsecured book of £66.4 million, both of which comprised the "Other Operations" category last year, are now included within the First Mortgages and Consumer Finance segments respectively. For reporting purposes these books were absorbed within the results from the two main business areas because their reduced size had rendered the Other Operations segment insignificant in terms of assets, revenue and net profits.

The adjusted operating results of these business segments are detailed fully in note 3 and are summarised below.

	Six months to 31 March 2007	Six months to 31 March 2006
	£m	£m
Operating result		
First Mortgages	34.4	26.7
Consumer Finance	8.9	12.3
	43.3	39.0

Net interest income increased by 5.5% to £75.2 million from £71.3 million for the first half of 2006. Portfolio growth has been concentrated on buy-to-let assets which, commensurate with the credit quality, are lower margin, whilst the higher margin consumer book has contracted over the year. Average margins in each division were similar to those achieved in the first half of 2006.

Other operating income was similar to the first half of 2006 at £15.0 million, compared with £15.2 million, a reduction in insurance commissions in the Consumer Division being compensated by increased administration and servicing income.

Operating expenses decreased by 4.0% to £23.8 million from £24.8 million for the first half of 2006, reflecting tight cost controls across the business and a reduced charge for share based payments. As a consequence, the cost:income ratio improved to 25.5% from 28.4% in the comparable period last year. Control over operating costs continues to be a major focus and is a significant driver for our competitive position in our lending markets.

The charge for impairment provisions of £26.2 million compares with £23.6 million for the first half of 2006. As a percentage of loans to customers (note 5) the charge remained consistent with that for the first half of 2006 at 0.3% (2006 H1: 0.3%). The charge includes amounts in respect of income which, although accounting standards require it to be charged, is not expected to be received by the Group and hence also inflates the charge for loan impairment. Under UK GAAP such income was not recognised. The loan books continue to be carefully managed and the arrears performance remains in line with our expectations, with the performance of the buy-to-let book continuing to be exemplary. Of the charge of £4.3 million attributed to the First Mortgages segment only £0.9 million (or 0.01% of assets) relates to the buy-to-let book, the remainder being attributable to the closed, owner-occupied book.

Fair value net gains of £3.1 million (2006 H1: £0.9 million) have arisen from the IFRS requirement that movements in the fair value of hedging instruments attributable to ineffectiveness in the hedging arrangements should be credited or charged to income and expense. Any ineffectiveness arising from differences between the fair value movements of hedging instruments and the fair value movements of the hedged assets or liabilities is expected to trend to zero over time.

Corporation tax has been charged at the rate of 29.1%, compared to 16.7% in the first half last year, the latter benefiting from an exceptional credit arising from settlement of a prior year item.

Review of operations

First Mortgages

The First Mortgages segment comprises the Group's buy-to-let business and the owner-occupied mortgage books.

New business origination in the first half has been strong in both the Group's buy-to-let brands, Paragon Mortgages and Mortgage Trust. Completions were £1,934.1 million for the six months to 31 March 2007, an increase of 44.9% from £1,334.5 million for the corresponding period last year. With redemption rates remaining low, the buy-to-let portfolio increased by 45.0% to £8,651.5 million at 31 March 2007 from £5,964.9 million a year earlier. The pipeline of new business at 31 March 2007 remained high, providing a strong start to the second half of the year.

The buy-to-let market has remained strong, with landlords' investment activity underpinned by continuing high tenant demand and rental growth. Figures released by the Council of Mortgage Lenders in February 2007 showed that, at £38.4 billion, buy-to-let mortgages in 2006 represented 11% of all mortgage advances made during the year, with total buy-to-let lending growing by 19% to £21 billion in the second half of that year.

Research with the Group's intermediaries confirms this picture, with confidence levels, which we have monitored since 1995, at record levels and buy-to-let now representing 22.5% of intermediary submissions to mortgage lenders. Survey data recently published by the Royal Institution of Chartered Surveyors showed tenant demand rising at its fastest pace for nine years, further supporting the near term growth prospects for buy-to-let lending. Long term demand within the private rented sector is supported by established social, economic and demographic trends.

The credit performance of the Group's buy-to-let portfolio remains exemplary, reflecting the high quality of the book as a result of the Group's focus on prime lending in this market.

The owner-occupied book reduced to £354.9 million from £431.5 million during the six months ended 31 March 2007 and performed in line with expectations. Save for the management of this book in run-off, there has been little activity in recent years in this area as the Group has focused originations on buy-to-let. However, since the period end, the Group has entered into an agreement to originate owner-occupied loans with Morgan Stanley International Bank, effectively extending the arrangement that was successfully launched with Morgan Stanley towards the end of the previous year in the secured personal finance area. Under the terms of this new agreement, we will originate loans from our network of introducers for sale to Morgan Stanley, taking no principal position on these loans but earning fees for each completion. We are very pleased to have extended this forward flow agreement to cover first as well as second mortgages with such a strong counterparty as Morgan Stanley, and we shall report on the progress of this new initiative with our full year results.

Consumer Finance

Total advances by the consumer finance businesses were £183.9 million during the period, down from £189.2 million during the corresponding period of the previous year. At 31 March 2007, the total loans outstanding on the consumer finance books were £756.9 million, compared with £786.6 million at 31 March 2006. This reduction reflects both the general weakness in the consumer lending markets and our objective of maintaining portfolio quality.

The division continues to focus on writing high quality loans, with bad debt levels remaining stable in line with expectations and below industry averages.

Personal Finance

Secured personal finance advances were £103.3 million for the six months ended 31 March 2007, a reduction of 12.2% from £117.6 million in the first half of 2006. Of this total, £17.4 million was advanced on behalf of Morgan Stanley International Bank under an arrangement entered into in September 2006. We hold no principal position on these loans. For our own portfolio, the Group's focus continues to be on prime business and, in an environment in which consumer confidence has worsened and affordability is more stretched, we have not relaxed our credit criteria in pursuit of business volumes.

The closed unsecured book continues to run down in accordance with our expectations. The book totalled £66.4 million at 31 March 2007, compared to £82.9 million a year before. During the period, balances with a book value of £3.5 million were sold and similar, small disposals are expected in the second half of the year.

Sales Aid Finance

The sales aid finance business, incorporating retail and car finance, achieved a 12.6% increase in new business volumes to £80.6 million during the six months ended 31 March 2007 (2006 H1: £71.6 million).

The division has continued to focus upon transacting high quality business and ensuring that bad debt levels remain below the market average. The division has also continued to gain new introducer relationships and has improved operating efficiency as a result of a greater number of introducers utilising our online processing platform.

Funding

The Group continued to be an active issuer in the capital markets during the period. In October 2006, a £1.5 billion buy-to-let securitisation was completed by Paragon Mortgages (No. 13) PLC; in January 2007, a £268.6 million securitisation to repackage certain older, owner-occupied loan assets was completed by First Flexible (No. 7) PLC; and, in March 2007, a further £1.5 billion buy-to-let securitisation was completed by Paragon Mortgages (No. 14) PLC. Over the course of the series of buy-to-let transactions, coupons have continued to reduce, reflecting the high quality of the Group's originations.

Capital management

During the period the Company bought 760,000 shares in the market at a cost of £4.7 million with the result that, by 31 March 2007, a total of 6,004,000 shares had been repurchased, at a total cost of £36.1 million, leaving £3.9 million to be completed from the current £40 million programme. During the first half of the financial year, we have continued the restructuring of the portfolio towards secured lending from more capital-demanding unsecured originations and seen further run-off of the closed books, both by natural redemption and disposal. As this process is expected to continue in the second half of the year, we shall review the share buy-back programme on completion of the current programme.

The progressive dividend growth continues to reflect our desire to reduce dividend cover to a level comparable with the sector.

Conclusion

The excellent results achieved by the Group for the first six months of the financial year reflect the success of our brands in the expanding buy-to-let market. Over the past ten years we have established a reputation as the specialist buy-to-let lender and have built a high quality portfolio in a market where short-term demand and long-term demographic trends point to sustainable growth.

Across all our businesses our prudent approach to lending has ensured that arrears and bad debts remain low and stable and, combined with our continuing focus on tight cost control, provides a firm foundation for future growth.

The Board believes that the quality of the Group's businesses and asset portfolios makes the Group well placed to operate successfully in our markets across the current monetary cycle. We look forward to the remainder of the year with confidence that the Group will achieve its objectives.

Consolidated income statement

For the six months ended 31 March 2007 (Unaudited)

	Note	Six months to 31 March 2007 £m	Six months to 31 March 2006 £m	Year to 30 September 2006 £m
Interest receivable		339.9	254.9	550.8
Interest payable and similar charges		(264.7)	(183.6)	(407.9)
Net interest income		75.2	71.3	142.9
Other operating income		15.0	15.2	30.6
Total operating income		90.2	86.5	173.5
Operating expenses		(23.8)	(24.8)	(45.4)
Provisions for losses		(26.2)	(23.6)	(47.8)
		40.2	38.1	80.3
Fair value net gains		3.1	0.9	2.5
Operating profit being profit on ordinary activities before taxation		43.3	39.0	82.8
Tax charge on profit on ordinary activities		(12.6)	(6.5)	(14.0)
Profit on ordinary activities after taxation		30.7	32.5	68.8
Dividend - Rate per share for the period	8	8.0p	6.9p	17.0p
Basic earnings per share	4	27.7p	28.8p	61.2p
Diluted earnings per share	4	26.5p	27.4p	58.4p

The results for the periods shown above relate entirely to continuing operations.

Consolidated balance sheet

31 March 2007 (Unaudited)

	Note	31 March 2007 £m	31 March 2006 £m	30 September 2006 £m
Assets Employed				
Non-current assets				
Intangible assets		0.6	0.4	0.6
Property, plant and equipment		21.0	19.8	20.2
Interests in associates		0.3	-	-
Financial assets	5	9,795.5	7,276.4	8,432.9
Retirement benefit obligations		2.2	-	0.3
Tax assets		34.1	36.5	33.6
		9,853.7	7,333.1	8,487.6
Current assets				
Other receivables		6.2	4.7	6.3
Cash and cash equivalents		1,097.5	734.5	622.7
		1,103.7	739.2	629.0
Total assets		10,957.4	8,072.3	9,116.6
Financed By				
Equity shareholders' funds				
Called-up share capital	6	12.1	12.1	12.1
Reserves	7	335.1	278.4	314.6
Share capital and reserves		347.2	290.5	326.7
Own shares	9	(53.6)	(28.4)	(47.7)
Total equity		293.6	262.1	279.0
Current liabilities				
Financial liabilities	10	195.9	28.5	128.0
Current tax liabilities		8.7	10.8	1.4
Provisions		1.8	-	0.7
Other liabilities		96.8	58.8	78.2
		303.2	98.1	208.3
Non-current liabilities				
Financial liabilities	10	10,352.8	7,705.4	8,619.7
Retirement benefit obligations		-	0.3	-
Deferred tax liabilities		-	0.7	-
Provisions		1.4	2.1	3.7
Other liabilities		6.4	3.6	5.9
		10,360.6	7,712.1	8,629.3
Total liabilities		10,663.8	7,810.2	8,837.6
		10,957.4	8,072.3	9,116.6

The interim financial information was approved by the Board of Directors on 22 May 2007.

Consolidated cash flow statement

For the six months ended 31 March 2007 (Unaudited)

	Note	Six months to 31 March 2007 £m	Six months to 31 March 2006 £m	Year to 30 September 2006 £m
Net cash flow (utilised) by operating activities	12	(1,297.6)	(779.4)	(1,824.0)
Net cash (utilised) by investing activities	13	(3.3)	(2.0)	(1.4)
Net cash generated by financing activities	14	1,775.4	985.5	1,917.8
Net increase in cash and cash equivalents		474.5	204.1	92.4
Opening cash and cash equivalents		622.3	529.9	529.9
Closing cash and cash equivalents		1,096.8	734.0	622.3
Represented by balances within				
Cash and cash equivalents		1,097.5	734.5	622.7
Financial liabilities		(0.7)	(0.5)	(0.4)
		1,096.8	734.0	622.3

Consolidated statement of recognised income and expenditure

Six months ended 31 March 2007 (Unaudited)

	Six months to 31 March 2007 £m	Six months to 31 March 2006 £m	Year to 30 September 2006 £m
Profit for the period	30.7	32.5	68.8
Actuarial gain/(loss) on pension scheme	1.5	(0.6)	(0.6)
Cash flow hedge (losses)/gains taken to equity	(1.3)	1.0	1.5
Tax on items taken directly to equity	(0.1)	(0.1)	(0.2)
Total recognised income and expenditure for the period	30.8	32.8	69.5
Adoption of IAS 32 and IAS 39	-	(72.5)	(72.5)
	30.8	(39.7)	(3.0)

Reconciliation of movements in consolidated equity

Six months ended 31 March 2007 (Unaudited)

	Note	Six months to 31 March 2007 £m	Six months to 31 March 2006 £m	Year to 30 September 2006 £m
Total recognised income and expenditure for the period		30.8	32.8	69.5
Dividends paid	8	(11.2)	(8.4)	(16.0)
Net movement in own shares		(5.9)	(5.6)	(24.9)
(Deficit)/surplus on transactions in own shares		(0.9)	0.8	0.6
Charge for share based remuneration		1.2	2.2	0.6
Tax on share based remuneration		0.6	-	8.9
Total movements in equity in the period		14.6	21.8	38.7
Equity at 30 September 2006		279.0	312.8	312.8
Adoption of IAS 32 and IAS 39		-	(72.5)	(72.5)
Equity at 1 October 2006		279.0	240.3	240.3
Closing equity		293.6	262.1	279.0

Notes to the interim financial information

For the six months ended 31 March 2007 (Unaudited)

1. General information

The interim financial information for the six months ended 31 March 2007 and for the six months ended 31 March 2006 has not been audited.

The figures shown above for the year ended 30 September 2006 are not statutory accounts. A copy of the statutory accounts has been delivered to the Registrar of Companies, contained an unqualified audit report and did not contain an adverse statement under sections 237 (2) or 237 (3) of the Companies Act 1985.

This document may contain forward-looking statements with respect to certain of the plans and current goals and expectations relating to the future financial conditions, business performance and results of the Group. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the Group including, amongst other things, UK domestic and global economic and business conditions, market related risk such as fluctuation in interest rates and exchange rates, inflation, deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group's actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward looking statements. Nothing in this document should be construed as a profit forecast.

A copy of the Interim Statement will be posted to shareholders and additional copies can be obtained from The Company Secretary, The Paragon Group of Companies PLC, St. Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.

2. Accounting policies

The interim financial information has been prepared on the basis of the accounting policies set out in the Annual Report and Accounts of the Group for the year ended 30 September 2006, which are expected to be used in the preparation of the financial statements of the Group for the year ending 30 September 2007.

The business segments reported on have been revised as described in note 3.

In addition, investments in associated companies are valued at the Group's share of the net assets of the associate, as required by IAS 28 - 'Investments in Associates'.

3. Segmental results

For reporting purposes the Group is organised into two major operating divisions, First Mortgages and Consumer Finance, which includes secured lending, car and retail finance, and the residual unsecured loans book which formed part of Other Operations last year. These divisions are the basis on which the Group reports primary segmental information.

This represents a change from the basis reported in 2006 in that the closed, owner-occupied first mortgage book and the closed unsecured book, which together comprised the "Other Operations" category last year, are now included within the First Mortgages and Consumer Finance segments respectively. For reporting purposes these books were absorbed within the results from the two main business areas because their reduced size had rendered the Other Operations segment insignificant in terms of assets, revenue and net profits.

Financial information about these business segments is shown below. Results for the six months ended 31 March 2006 and the year ended 30 September 2006 have been re-analysed between the new segments as described above.

Six months ended 31 March 2007

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	279.2	60.7	339.9
Interest payable	(237.1)	(27.6)	(264.7)
Net interest income	42.1	33.1	75.2
Other operating income	7.1	7.9	15.0
Total operating income	49.2	41.0	90.2
Operating expenses	(13.5)	(10.3)	(23.8)
Provisions for losses	(4.3)	(21.9)	(26.2)
	31.4	8.8	40.2
Fair value net gains	3.0	0.1	3.1
Operating profit	34.4	8.9	43.3

3. Segmental results (continued)

Six months ended 31 March 2006

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	191.6	63.3	254.9
Interest payable	(158.6)	(25.0)	(183.6)
Net interest income	33.0	38.3	71.3
Other operating income	5.9	9.3	15.2
Total operating income	38.9	47.6	86.5
Operating expenses	(12.9)	(11.9)	(24.8)
Provisions for losses	(0.1)	(23.5)	(23.6)
	25.9	12.2	38.1
Fair value net gains	0.8	0.1	0.9
Operating profit	26.7	12.3	39.0

Year ended 30 September 2006

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	428.8	122.0	550.8
Interest payable	(356.8)	(51.1)	(407.9)
Net interest income	72.0	70.9	142.9
Other operating income	12.3	18.3	30.6
Total operating income	84.3	89.2	173.5
Operating expenses	(23.7)	(21.7)	(45.4)
Provisions for losses	(2.5)	(45.3)	(47.8)
	58.1	22.2	80.3
Fair value net gains	2.4	0.1	2.5
Operating profit	60.5	22.3	82.8

4. Earnings per share

Earnings per ordinary share is calculated as follows:

	31 March 2007	31 March 2006	30 September 2006
Profit for the period (£m)	30.7	32.5	68.8
Basic weighted average number of ordinary shares ranking for dividend during the period (million)	110.9	113.1	112.4
Dilutive effect of the weighted average number of share options and incentive plans in issue during the period (million)	5.2	5.6	5.3
Diluted weighted average number of ordinary shares ranking for dividend during the period (million)	116.1	118.7	117.7
Earnings per ordinary share			
- basic	27.7p	28.8p	61.2p
- diluted	26.5p	27.4p	58.4p

Fully taxed earnings per ordinary share is based on earnings calculated by reducing profit before tax for the period by a notional tax rate of 30%, the standard rate of corporation tax in the United Kingdom. The numbers of shares used are as shown above.

Fully taxed earnings per ordinary share is calculated as follows:

	31 March 2007	31 March 2006	30 September 2006
Profit before tax for the period (£m)	43.3	39.0	82.8
Notional tax at 30% (£m)	(13.0)	(11.7)	(24.8)
Fully taxed earnings for the period (£m)	30.3	27.3	58.0
Fully taxed earnings per ordinary share			
- basic	27.3p	24.2p	51.6p
- diluted	26.2p	23.0p	49.3p

5. Financial assets

	31 March 2007 £m	31 March 2006 £m	30 September 2006 £m
Loans to customers	9,763.3	7,232.9	8,426.6
Fair value adjustments from portfolio hedging	(34.9)	(1.0)	(14.0)
Loans to associated undertakings	15.2	-	-
Derivative financial assets	51.9	44.5	20.3
	9,795.5	7,276.4	8,432.9

6. Called-up share capital

	31 March 2007 £m	31 March 2006 £m	30 September 2006 £m
Authorised: 175,000,000 ordinary shares of 10p each	17.5	17.5	17.5
Allotted and paid-up: Ordinary shares of 10p each	12.1	12.1	12.1

Movements in the issued share capital in the period were:

	Six months to 31 March 2007 Number	Six months to 31 March 2006 Number	Year to 30 September 2006 Number
Ordinary shares of 10p each			
At 1 October 2006	121,452,366	120,762,342	120,762,342
Shares issued in respect of share option schemes	33,911	324,282	690,024
	121,486,277	121,086,624	121,452,366

7. Reserves

	31 March 2007 £m	31 March 2006 £m	30 September 2006 £m
Share premium account	71.5	70.8	71.4
Merger reserve	(70.2)	(70.2)	(70.2)
Cash flow hedging reserve	(2.5)	(1.9)	(1.5)
Profit and loss account	336.3	279.7	314.9
	335.1	278.4	314.6

8. Equity dividend

Amounts recognised as distributions to equity shareholders in the period:

	31 March 2007	31 March 2006	30 September 2006
	£m	£m	£m
Final dividend for the year ended 30 September 2005 of 7.4p per share	-	8.4	8.4
Interim dividend for the year ended 30 September 2006 of 6.9p per share	-	-	7.6
Final dividend for the year ended 30 September 2006 of 10.1p per share	11.2	-	-
	11.2	8.4	16.0

An interim dividend of 8.0p per share is proposed (2006: 6.9p per share), payable on 27 July 2007 with a record date of 29 June 2007. The amount expected to be absorbed by this dividend, based on the number of shares in issue at the balance sheet date is £8.9m. The interim dividend will be recognised in the accounts when it is paid.

9. Own shares

	31 March 2007	31 March 2006	30 September 2006
	£m	£m	£m
Treasury shares			
At 1 October 2006	31.4	8.3	8.3
Shares purchased	4.7	3.3	23.1
At 31 March 2007	36.1	11.6	31.4
ESOP shares			
At 1 October 2006	16.3	14.5	14.5
Shares purchased	2.7	3.5	4.3
Options exercised	(1.5)	(1.2)	(2.5)
At 31 March 2007	17.5	16.8	16.3
Balance at 31 March 2007	53.6	28.4	47.7
Number of shares held			
Treasury	6,004,000	2,219,000	5,244,000
ESOP	4,778,518	5,700,117	5,028,353
Balance at 31 March 2007	10,782,518	7,919,117	10,272,353

10. Financial liabilities

	31 March 2007 £m	31 March 2006 £m	30 September 2006 £m
Current liabilities			
Finance lease liability	0.4	0.4	0.4
Bank loans and overdrafts	195.5	28.1	127.6
	<u>195.9</u>	<u>28.5</u>	<u>128.0</u>
Non-current liabilities			
Asset backed loan notes	9,611.9	7,084.4	7,057.7
Corporate bond	115.0	119.3	117.9
Finance lease liability	13.7	14.1	13.9
Bank loans and overdrafts	280.3	466.0	1,267.9
Derivative financial liabilities	331.9	21.6	162.3
	<u>10,352.8</u>	<u>7,705.4</u>	<u>8,619.7</u>

Details of changes in the Group's borrowings since the year end are given in note 11 below.

11. Borrowings

During the six months ended 31 March 2007 the Group issued £3,269.1m of mortgage backed floating rate loan notes, denominated in sterling, US dollars and euros. The principal terms of these notes on issue are shown below.

	Issue date	Maturity date	Call date	Principal issued	Average Interest Margin
Sterling notes				£m	%
Paragon Mortgages (No. 13) PLC	22/10/06	15/01/39	15/10/11	194.0	0.16
Paragon Mortgages (No. 14) PLC	26/03/07	15/09/39	15/03/12	196.9	0.15
First Flexible (No. 7) PLC	25/01/07	15/07/33	15/03/12	268.6	0.12
US dollar notes				\$m	%
Paragon Mortgages (No. 13) PLC	22/10/06	15/01/39	15/10/11	1,850.0	0.01
Paragon Mortgages (No. 14) PLC	26/03/07	15/09/39	15/03/12	1,900.0	0.02
Euro notes				€m	%
Paragon Mortgages (No. 13) PLC	22/10/06	15/01/39	15/10/11	480.0	0.18
Paragon Mortgages (No. 14) PLC	26/03/07	15/09/39	15/03/12	470.3	0.20

The mortgage backed floating rate notes which had been issued by First Flexible No. 1 PLC and First Flexible No. 3 PLC were repaid in full in the period. All bank facilities other than those drawn by Paragon Finance PLC and Paragon Second Funding Limited were repaid and cancelled in the period.

All other borrowings described in the Group Accounts for the year ended 30 September 2006 remained in place throughout the period.

12. Net cashflow from operating activities

	Six months to 31 March 2007 £m	Six months to 31 March 2006 £m	Year to 30 September 2006 £m
Profit before tax	43.3	39.0	82.8
Non-cash items included in profit and other adjustments			
Depreciation of property, plant and equipment	1.9	1.6	3.5
Amortisation of intangible assets	0.1	0.1	0.2
Foreign exchange movements on borrowings	(162.4)	58.8	(119.3)
Other non-cash movements on borrowings	(1.2)	2.4	5.3
Impairment losses on loans to customers	26.2	23.6	47.8
Charge for share based remuneration	1.2	2.2	0.6
Loss on disposal of property, plant and equipment	0.2	0.1	-
Net (increase)/decrease in operating assets			
Loans to customers	(1,362.8)	(824.9)	(1,951.2)
Loans to associates	(15.2)	-	-
Derivative financial instruments	(31.6)	(20.6)	3.6
Fair value of portfolio hedges	20.9	1.0	14.0
Other receivables	(1.8)	(0.4)	(2.3)
Net increase/(decrease) in operating liabilities			
Derivative financial instruments	169.6	(39.7)	100.9
Other liabilities	19.3	(14.0)	5.5
Cash (utilised) by operations	(1,292.3)	(770.8)	(1,808.6)
Income taxes paid	(5.3)	(8.6)	(15.4)
Net cash flow (utilised) by operating activities	(1,297.6)	(779.4)	(1,824.0)

13. Net cashflow used in investing activities

	Six months to 31 March 2007	Six months to 31 March 2006	Year to 30 September 2006
	£m	£m	£m
Proceeds on disposal of property, plant and equipment	0.6	0.7	1.2
Purchases of property, plant and equipment	(3.5)	(2.5)	(5.2)
Purchases of intangible assets	(0.1)	(0.2)	(0.5)
Acquisition of subsidiary undertakings net of cash acquired	-	-	3.1
Investment in associates	(0.3)	-	-
Net cash (utilised) by investing activities	(3.3)	(2.0)	(1.4)

14. Net cashflow from financing activities

	Six months to 31 March 2007	Six months to 31 March 2006	Year to 30 September 2006
	£m	£m	£m
Dividends paid	(11.2)	(8.4)	(16.0)
Issue of asset backed floating rate notes	3,263.0	1,996.6	3,493.6
Repayment of asset backed floating rate notes	(548.8)	(468.3)	(1,906.6)
Capital element of finance lease payments	(0.2)	(0.3)	(0.4)
Movement on bank facilities	(920.6)	(529.3)	371.5
Purchase of shares	(7.4)	(6.7)	(27.4)
Exercise of options under ESOP scheme	0.5	1.2	1.9
Exercise of other share options	0.1	0.7	1.2
Net cash generated by financing activities	1,775.4	985.5	1,917.8

Independent review report

To the Paragon Group of Companies PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 31 March 2007 which comprises the income statement, the balance sheet, the cash flow statement, the statement of recognised income and expenditure, the reconciliation of movements in consolidated equity and related notes 1 to 14. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2007.

Deloitte & Touche LLP

Chartered Accountants

Birmingham

United Kingdom

22 May 2007

Contacts

Registered and head office

St Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE
Telephone: 0121 712 2323

London office

Third Floor
30-34 Moorgate
London EC2R 6DN
Telephone: 020 7786 8474

Internet

www.paragon-group.co.uk

Auditors

Deloitte & Touche LLP
Chartered Accountants
Four Brindleyplace
Birmingham B1 2HZ

Solicitors

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Registrars and transfer office

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Brokers

Hoare Govett Limited
250 Bishopsgate
London EC2M 4AA

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

Remuneration consultants

New Bridge Street Consultants LLP
20 Little Britain
London EC1A 7DH

Consultant actuaries

Mercer Human Resource Consulting Limited
Four Brindleyplace
Birmingham B1 2JQ



paragon

The Paragon Group of Companies PLC

St Catherine's Court
Herbert Road
Solihull
West Midlands
B91 3QE
Telephone: 0121 712 2323
www.paragon-group.co.uk