Half-Yearly Financial Report

The Paragon Group of Companies PLC

Six months ended 31 March 2012

paragon

Contents

Financial Highlights

£44.8m pre-tax profit

up 13.4% from £39.5m in H1 2011

£766.0m shareholders' funds

up from £715.2m in H1 2011

11.4p earnings per share

up from 9.7p in H1 2011

1.50p per share

interim dividend

£87.2m

new buy-to-let loans advanced

£99.3m

consumer loans purchased

Interim Management Report

During the six months ended 31 March 2012, the Group achieved strong growth in profits, invested significantly in portfolio acquisitions, increased buy-to-let lending and completed its first securitisation since 2007. This was also the first period since the first half of 2008 during which total loan assets have increased, with new additions exceeding back book redemptions.

The Group's strategy remains focused on delivering value to shareholders by close management of the existing loan book, by acquisition of loan portfolios as the bank sector continues to de-leverage and restructure balance sheets, and through the buy-to-let origination franchise. In view of the higher potential returns to shareholders that are currently available from investment in portfolios, we have, in the period, employed significantly more capital in this activity than in buy-to-let mortgage originations.

Underlying profit, before movements in fair values for hedging instruments, was 14.1% higher at £43.8 million (note 7), compared with £38.4 million for the first half of 2011. The increase was driven primarily by profits from acquired loan portfolios. Profit on ordinary activities before taxation was 13.4% higher at £44.8 million, compared with £39.5 million for the first half of 2011 after fair value movements. Earnings per share were 17.5% higher at 11.4p (2011 H1: 9.7p).

In light of these results, the Company will pay an interim dividend of 1.50p per share (H1 2011: 1.35p per share), a total of £4.5 million (H1 2011: £4.0 million), on 27 July 2012 to all shareholders on the register on 6 July 2012, an increase of 11.1% from last year's interim dividend.

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, the residual car, retail finance and unsecured loan books and other sources of income derived from consumer loans. These divisions are the basis on which the Group reports primary segmental information.

The underlying profits of these business segments are detailed fully in note 7 and are summarised below.

	Six months to 31 Mar 2012 £m	Six months to 31 Mar 2011 £m
Underlying profit		
First Mortgages	**29.3**	30.6
Consumer Finance	**14.5**	7.8
	43.8	38.4

Net interest income increased by 12.6% to £75.9 million from £67.4 million for the first half of 2011, the increase arising from origination of and investment in loan assets which, in both amount and margin, was greater than the assets that redeemed during the period. Overall, margins on both buy-to-let and consumer assets improved during the period.

Other operating income was £6.4 million for the period, compared with £7.1 million for the first half of 2011. The reduction from the first half of 2011 reflects principally a lower level of third party fee income as a result of the Group purchasing previously administered accounts during the period.

Operating expenses increased by 10.5% to £25.2 million from £22.8 million for the first half of 2011. The increase is primarily attributable to the recruitment of additional members of staff during the period and the second half of 2011 to administer purchased and third party loan portfolios. The cost:income ratio for the period was in line with our expectations and that for the corresponding period last year at 30.6% (note 5) and remains significantly below the industry average. The Board remains focused on controlling operating costs through the application of rigorous budgeting and monitoring procedures.

The charge of £13.3 million for loan impairment is unchanged from that for the first half of 2011, an increase in the charge within the First Mortgages segment being offset by a reduction in the impairment charge within the Consumer Finance segment. As a percentage of loans to customers (note 11) the impairment charge has remained at 0.2% compared with the first half of 2011 and has also remained stable compared to the second half of 2011. The loan books continue to be carefully managed and the credit performance of the buy-to-let book continues to be exemplary.

Cash flows from the Group's securitisation vehicle companies and the acquired portfolios remain strong. Free cash balances were £104.9 million at 31 March 2012 (2011 H1: £179.7 million) (note 13), after investing £99.3 million in asset purchases and £37.5 million in the Paragon Mortgages (No. 16) PLC securitisation during the period.

Yield curve movements during the period resulted in hedging instrument fair value net gains of £1.0 million (2011 H1: £1.1 million net gains), which do not affect cash flow. As the fair value movements of hedged assets or liabilities are expected to trend to zero over time, this item is merely a timing difference. The Group remains economically and appropriately hedged.

Corporation tax has been charged at the rate of 24.8%, compared with 27.8% in the first half of last year, the lowering of the standard Corporation Tax rate being the main factor in the reduction.

Profits after taxation of £33.7 million have been transferred to shareholders' funds, which totalled £766.0 million at 31 March 2012, representing a value of £2.57 per share (2011 H1: £2.43) (Note 24).

The information on related party transactions required by DTR 4.2.8(1) of the Disclosure and Transparency Rules is given in note 25, and a summary of the principal risks and uncertainties faced by the Group is given on page 25.

REVIEW OF OPERATIONS

First Mortgages

Buy-to-let loans advanced under the Group's new products during the period were £87.2 million and a further £2.0 million of further advances were made to existing borrowers, compared to £29.6 million of new loans and £2.7 million of further advances for the first half of the previous year, bringing the total value of completions under the Group's new products since the recommencement of new lending in October 2010 to £214.2 million. Application levels have continued to build over the period and the pipeline of applications and offers outstanding at the half year totalled £103.1 million. In November 2011, the Group completed its first long term financing of these newly originated assets though its Paragon Mortgages (No. 16) PLC securitisation.

The Group has continued to generate high quality business, with no arrears to date in the loans generated since the recommencement of new lending. This exceptional performance has been achieved as a result of the credit assessment of individual landlord customers, the consistent application of credit criteria and the individual assessment of properties by our own team of surveyors.

The latest Residential Lettings Survey from the Royal Institution of Chartered Surveyors indicates a lettings market that continues to be driven by strong demand and low supply. Rents have continued to rise although the pace of growth has eased off. This strength in the private rented sector is further evidenced in the demand for buy-to-let lending. In May the Council of Mortgage Lenders published the industry level results for buy-to-let lending in the period. This showed that the number of new buy-to-let mortgages in the period had increased by 30.2% to 66,000 compared with the equivalent period last year (2011 H1: 50,700) with a total value of £7.6 billion (2011 H1: £5.6 billion).

The overall performance of the Group's buy-to-let portfolio continues to be exemplary, with the combination of high customer retention and low arrears and losses continuing to deliver strong revenues. The portfolio's value was £8,210.7 million at 31 March 2012, compared with £8,231.7 million at 30 September 2011. The low level of redemptions of 2.1% (annualised) compares with 2.2% for the corresponding period last year and continues to reflect the disparity between mortgage rates currently available on new products and back book charging rates.

The percentage of buy-to-let loans three months or more in arrears has continued to fall, standing at 0.55%, including acquired loans and receivership cases, at 31 March 2012 (31 March 2011: 0.75%, 30 September 2011: 0.63%) and remains below the comparable figure for the buy-to-let industry of 1.69% at the same date, as reported by the Council of Mortgage Lenders (31 March 2011: 2.23%, 30 September 2011: 1.91%). Despite an improved arrears performance over the period, the impairment charge attributable to First Mortgages increased to £7.4 million for the period from £5.4 million for the corresponding period in 2011, this being primarily attributable to an increase in receiver of rent activity in the period, where a charge for impairments may be made for accounts that are less than three months in arrears.

The number of properties in receivership was 1,530 at 31 March 2012 (31 March 2011: 1,431). At the end of March 2012, 92.3% of the properties available for letting in the receiver of rent portfolio were let (30 September 2011: 93.9%, 31 March 2011: 93.5%) and yielded rental income which comfortably covered the mortgage payments.

The owner-occupied book reduced to £114.9 million from £137.8 million during the twelve months ended 31 March 2012 and performed in line with our expectations.

Consumer Finance

At 31 March 2012, the value of loans outstanding on the consumer finance books was £419.4 million, compared with £363.8 million at 30 September 2011, this increase being due to portfolio purchases and the continuing low level of redemptions across the portfolios. During the period the Group has invested £99.3 million in the purchase of unsecured loan balances. The performance of the Consumer Finance book remains satisfactory and in line with our expectations.

The Group's secured loan portfolio at 31 March 2012, including the acquired assets, was £313.0 million (30 September 2011: £340.1 million). The unsecured loan, retail finance and car finance portfolios, including the acquired assets, totalled £106.4 million at 31 March 2012 (31 March 2011: £31.8 million).

PORTFOLIO ACQUISITIONS AND SERVICING

A major area of strategic focus has been the acquisition of loan portfolios through Idem Capital and the servicing of third party loan portfolios as opportunities are created through the ongoing process of bank de-leveraging. Over the past year the Group has firmly established itself as one of the top consumer debt buyers in the UK, with an aggregate spend in the twelve months ended 31 March 2012 of £121.8 million. In addition to assets acquired in its own right, Idem, through its sister companies, Moorgate Loan Servicing and Arden Credit Management, has established four new servicing contracts with co-investment partners since the year end. These add volume to the Group's servicing operations and enhance earnings, with little or no capital investment. The contribution to operating profit from these areas was £11.8 million (2011 H1: £3.5 million).

Idem Capital

In October 2011, the Group's investment division, Idem Capital, completed the purchase of a portfolio of unsecured consumer loans, previously serviced by the Group, from The Royal Bank of Scotland plc ('RBS') for £43.2 million. In addition, under the terms of a forward flow agreement entered into with RBS, a total of £0.4 million of acquisitions of unsecured consumer loans were completed in the period, and further opportunities are anticipated.

A further significant portfolio purchase was completed in December 2011 when Idem Capital acquired a portfolio of closed credit card receivables from MBNA Europe Bank Limited, for £55.7 million. The management of these accounts was transferred to the Group during the second quarter of the year.

By 31 March 2012, total investment in portfolios by Idem Capital since 2009 had reached £145.6 million. A number of potential portfolio investments are currently under review and the Group's track record in loan servicing, risk management and portfolio investment positions it well to exploit similar opportunities as they arise in future.

Moorgate Loan Servicing

The Group's third party loan servicing business operates through Moorgate Loan Servicing and its division, Arden Credit Management, utilising our core administration and collections skills. Our experience in loan management established over many years has enabled us to extend this service to our third party clients, providing significant added value to the performance of their loan portfolios. During the period Moorgate Loan Servicing has assumed the servicing of three further portfolios, comprising 111,000 accounts, on behalf of third parties. After the end of the period, the servicing of a further 10,000 third party accounts commenced and a number of other potential servicing arrangements are currently under review.

FUNDING

The Group funds its mortgage originations through a £200.0 million revolving warehouse facility provided by Macquarie Bank before arranging term funding in the securitisation markets.

In November 2011 the Group completed, through its subsidiary Paragon Mortgages (No. 16) PLC, the first securitisation transaction consisting exclusively of buy-to-let assets since the reopening of the securitisation markets. The £163.8 million transaction was Paragon's first securitisation since July 2007. Following high levels of investor demand, the transaction was upsized from a launch forecast of approximately £150.0 million, recognising the strong credit profile of the Group's buy-to-let assets and its pedigree as an issuer of high quality bonds. Paragon Mortgages (No. 16) PLC placed £131.7 million Class A Senior notes, rated AAA by Fitch and Aaa by Moody's, with investors. The Group retained £32.1 million Class Z junior notes and advanced a cash fund of £5.4 million. The transaction represented a significant step in the Group's post credit crunch funding programme.

Funding markets rallied strongly from the beginning of 2012, initially due to the impetus of the European Central Bank's Long Term Refinancing Operation (LTRO), which gave Eurozone banks three year term loans at advantageous rates, and subsequently as part of a broader based increase in market appetite for credit. The improvement in demand has attracted a number of building societies into the UK residential mortgage backed securities ('RMBS') market and the Coventry, Skipton and West Bromwich Building Societies have each issued notes successfully during the period, whilst the spread on AAA prime RMBS has decreased by 30 to 40 basis points per annum. Despite the renewed uncertainties in the Eurozone, recent issuance continues to show strong demand for UK RMBS from investors and whilst market volatility remains a risk, these developments are encouraging for the Group's plans for ongoing access to the RMBS market.

The Group is currently negotiating an extension to its warehouse facility at the end of the current commitment period in December 2012 and an increase in its warehouse funding capacity to facilitate further development of the buy-to-let business.

REGULATION

The Financial Services Authority ('FSA') has published a further consultation for reform flowing from its Mortgage Market Review, including proposals for the provision of enhanced prudential supervision of non-deposit takers engaged in regulated lending. It is also proposed that the FSA will, in due course, assume responsibility for the regulation of consumer credit. Certain of the Group's operations are already authorised by the FSA in respect of residential mortgage and insurance activity and we expect to be well placed to comply with the proposed changes in the regulatory framework, therefore we do not expect them to have a material effect on the Group's operations.

The European Commission's proposed directive on credit agreements relating to residential property, which would impose additional disclosure and underwriting requirements for all mortgage lending to consumers secured on residential property, has yet to be concluded. It remains unclear whether these obligations will extend to buy-to-let lending.

We will continue to maintain an active dialogue with the UK and European regulatory authorities as these proposals develop.

BOARD OF DIRECTORS

On 9 February 2012 Richard Woodman was appointed to the Board as Director - Corporate Development. He was also appointed Managing Director of Idem Capital Limited.

Mr Woodman joined the Group in 1989 and he has held various senior strategic and financial roles, latterly as Director of Business Analysis and Planning. More recently he has taken a lead role in the Group's strategic development and, in particular, in the portfolio acquisition programme through Idem Capital.

On 31 March 2012 Terry Eccles resigned from the Board of Directors owing to health reasons. Terry Eccles was appointed to the Board in February 2007 and served as Chairman of the Remuneration Committee until February 2009 and as Senior Independent Director from February 2009 until July 2011. His experience and wisdom have been invaluable and his presence on the Board will be sadly missed. The Board wishes to thank Mr Eccles for his enormous contribution over the past five years and wish him well for the future.

CONCLUSION

The Group continues to make good strategic progress, developing its lending business through buy-to-let originations and through the purchase of consumer loan portfolios. The Group is well capitalised, has a term-funded balance sheet, has strong operational cash flow and is highly regarded for its track record as an originator and servicer of mortgages and consumer loans. This strong combination of attributes leaves the Group well placed to continue to develop its lending activities and to make further earnings enhancing portfolio investments as banks and other financial institutions sell assets as part of their efforts to deleverage their balance sheets. This, in turn, augurs well for maintaining growth going forward.

Statement of Directors' Responsibilities

The directors confirm that, to the best of their knowledge:

- the condensed financial statements have been prepared in accordance with International Accounting Standard 34 – 'Interim Financial Reporting';
- the Interim Management Report includes a fair review of the information required by Section 4.2.7R of the Disclosure and Transparency Rules, issued by the UK Listing Authority (indication of important events that have occurred during the first six months of the current financial year and their impact on the condensed financial statements and description of the principal risks and uncertainties for the remaining six months of the financial year); and
- the Interim Management Report includes a fair review of the information required by Section 4.2.8R of the Disclosure and Transparency Rules, issued by the UK Listing Authority (disclosure of related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or the performance of the enterprise during that period; and any changes in the related party transactions described in the last annual report which could do so).

Approved by the Board of Directors and signed on behalf of the Board.

JOHN G GEMMELL
Company Secretary
23 May 2012

Condensed Financial Statements

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 March 2012 (Unaudited)

	Note	**Six months to 31 Mar 2012 £m**	Six months to 31 Mar 2011 £m	Year to 30 Sept 2011 £m
Interest receivable		**144.6**	127.8	258.0
Interest payable and similar charges		**(68.7)**	(60.4)	(122.2)
Net interest income		**75.9**	67.4	135.8
Other operating income	4	**6.4**	7.1	15.1
Total operating income		**82.3**	74.5	150.9
Operating expenses		**(25.2)**	(22.8)	(45.4)
Provisions for losses		**(13.3)**	(13.3)	(24.4)
Operating profit before fair value items		**43.8**	38.4	81.1
Fair value net gains / (losses)	6	**1.0**	1.1	(0.3)
Operating profit being profit on ordinary activities before taxation		**44.8**	39.5	80.8
Tax charge on profit on ordinary activities	8	**(11.1)**	(11.0)	(21.2)
Profit on ordinary activities after taxation		**33.7**	28.5	59.6

	Note	**Six months to 31 Mar 2012**	Six months to 31 Mar 2011	Year to 30 Sept 2011
Dividend - Rate per share for the period	16	**1.50p**	1.35p	4.00p
Basic earnings per share	9	**11.4p**	9.7p	20.2p
Diluted earnings per share	9	**11.0p**	9.3p	19.6p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 31 March 2012 (Unaudited)

	Note	**Six months to 31 Mar 2012 £m**	Six months to 31 Mar 2011 £m	Year to 30 Sept 2011 £m
Profit for the period		**33.7**	28.5	59.6
Other comprehensive income				
Actuarial (loss) / gain on pension scheme	20	**(3.0)**	1.6	(0.3)
Cash flow hedge gains taken to equity		**(0.3)**	0.1	0.4
Tax on items taken directly to equity		**0.7**	(0.3)	(0.3)
Other comprehensive income for the period net of tax		**(2.6)**	1.4	(0.2)
Total comprehensive income for the period		**31.1**	29.9	59.4

CONSOLIDATED BALANCE SHEET

31 March 2012 (Unaudited)

	Note	**31 Mar 2012 £m**	31 Mar 2011 £m	30 Sept 2011 £m	30 Sept 2010 £m
Assets employed					
Non-current assets					
Intangible assets	10	**9.4**	9.4	9.3	9.2
Property, plant and equipment		**11.4**	11.2	11.4	12.2
Financial assets	11	**9,710.5**	9,919.9	9,891.2	10,080.1
Deferred tax asset		**-**	-	-	1.5
		9,731.3	9,940.5	9,911.9	10,103.0
Current assets					
Other receivables		**4.4**	5.4	4.7	5.9
Cash and cash equivalents	13	**475.8**	556.0	571.6	536.7
		480.2	561.4	576.3	542.6
Total assets		**10,211.5**	10,501.9	10,488.2	10,645.6
Financed by					
Equity shareholders' funds					
Called-up share capital	14	**301.4**	299.7	299.7	299.4
Reserves	15	**513.3**	469.0	490.7	445.8
Share capital and reserves		**814.7**	768.7	790.4	745.2
Own shares	17	**(48.7)**	(53.5)	(48.4)	(53.2)
Total equity		**766.0**	715.2	742.0	692.0
Current liabilities					
Financial liabilities	18	**1.7**	2.0	1.8	1.2
Current tax liabilities		**13.0**	14.0	10.7	16.2
Other liabilities		**39.4**	35.2	38.3	32.4
		54.1	51.2	50.8	49.8
Non-current liabilities					
Financial liabilities	18	**9,367.3**	9,717.4	9,674.5	9,885.7
Retirement benefit obligations	20	**16.9**	14.8	14.4	16.5
Deferred tax		**5.9**	1.9	5.0	-
Other liabilities		**1.3**	1.4	1.5	1.6
		9,391.4	9,735.5	9,695.4	9,903.8
Total liabilities		**9,445.5**	9,786.7	9,746.2	9,953.6
		10,211.5	10,501.9	10,488.2	10,645.6

The condensed financial statements for the half year were approved by the Board of Directors on 23 May 2012.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 March 2012 (Unaudited)

	Note	**Six months to 31 Mar 2012 £m**	Six months to 31 Mar 2011 £m	Year to 30 Sept 2011 £m
Net cash flow generated by operating activities	21	**19.2**	171.6	246.1
Net cash (utilised) by investing activities	22	**(1.6)**	(0.6)	(2.1)
Net cash (utilised) by financing activities	23	**(113.3)**	(152.4)	(209.6)
Net (decrease) / increase in cash and cash equivalents		**(95.7)**	18.6	34.4
Opening cash and cash equivalents		**571.0**	536.6	536.6
Closing cash and cash equivalents		**475.3**	555.2	571.0
Represented by balances within				
Cash and cash equivalents	13	**475.8**	556.0	571.6
Financial liabilities		**(0.5)**	(0.8)	(0.6)
		475.3	555.2	571.0

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

Six months ended 31 March 2012 (Unaudited)

	Note	**Six months to 31 Mar 2012 £m**	Six months to 31 Mar 2011 £m	Year to 30 Sept 2011 £m
Total comprehensive income for the period		**31.1**	29.9	59.4
Dividends paid	16	**(7.9)**	(7.1)	(11.1)
Shares issued		**1.7**	0.3	-
Net movement in own shares		**(0.3)**	(0.3)	4.8
Deficit on transactions in own shares		**(1.7)**	(1.2)	(5.2)
Charge for share based remuneration		**1.0**	0.9	2.0
Tax on share based remuneration		**0.1**	0.7	0.1
Total movements in equity in the period		**24.0**	23.2	50.0
Opening equity		**742.0**	692.0	692.0
Closing equity		**766.0**	715.2	742.0

Selected Notes to The Accounts

For the six months ended 31 March 2012 (Unaudited)

1. GENERAL INFORMATION

The condensed financial statements for the six months ended 31 March 2012 and for the six months ended 31 March 2011 have not been audited.

The figures shown above for the years ended 30 September 2011 and 30 September 2010 are not statutory accounts. A copy of the statutory accounts for each year has been delivered to the Registrar of Companies. The auditors reported on those statutory accounts and their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain an adverse statement under sections 498 (2) or 498 (3) of the Companies Act 2006.

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 half-yearly financial report 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 condensed financial statements are presented in accordance with the requirements of International Accounting Standard 34 – 'Interim Financial Reporting'.

The Group prepares its annual financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union. The condensed financial statements have 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 2011, which are expected to be used in the preparation of the financial statements of the Group for the year ending 30 September 2012.

Going concern basis

The business activities of the Group, its current operations and those factors likely to affect its future results and development, together with a description of its financial position and funding position, are described in the Interim Management Report on pages 5 to 9. The principal risks and uncertainties affecting the Group in the forthcoming six months, and the steps taken to mitigate against these risks, are described on page 25.

Note 5 to the accounts for the year ended 30 September 2011 includes an analysis of the Group's working capital position and policies, while note 6 includes a detailed description of its funding structures, its use of financial instruments, its financial risk management objectives and policies and its exposure to credit, interest rate and liquidity risk. Note 4 to those accounts discusses critical accounting estimates affecting the results and financial position disclosed therein. The position and policies described in these notes remain materially unchanged to the date of this half-yearly report, except as described in note 19.

Substantially all of the Group's loan portfolios are funded through securitisation structures and are thus match-funded to maturity. None of the Group's debt matures before 2017, when the £110.0 million corporate bond is repayable. As a consequence the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the half-yearly report.

3. SEGMENTAL RESULTS

For internal reporting purposes the Group is organised into two major operating divisions, First Mortgages and Consumer Finance. These divisions are the basis on which the Group reports segmental information.

The revenue generated by the First Mortgages segment includes interest and fees generated by the buy-to-let and owner-occupied mortgage assets and other income derived from first charge mortgages. Consumer Finance revenue includes interest and fees generated by second charge loans, the residual car, retail finance and unsecured loan assets, and other sources of income derived from consumer loans. Both of these divisions include assets originated internally and assets acquired from third parties. All revenues arise from external customers and there are no inter-segment revenues.

Financial information about these business segments is shown below.

Six months ended 31 March 2012

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	115.2	29.4	144.6
Interest payable	(64.6)	(4.1)	(68.7)
Net interest income	50.6	25.3	75.9
Other operating income	3.5	2.9	6.4
Total operating income	54.1	28.2	82.3
Operating expenses	(17.4)	(7.8)	(25.2)
Provisions for losses	(7.4)	(5.9)	(13.3)
	29.3	14.5	43.8
Fair value net gains / (losses)	1.3	(0.3)	1.0
Operating profit	30.6	14.2	44.8
Tax charge			(11.1)
Profit after taxation			33.7

Six months ended 31 March 2011

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	106.4	21.4	127.8
Interest payable	(56.3)	(4.1)	(60.4)
Net interest income	50.1	17.3	67.4
Other operating income	3.3	3.8	7.1
Total operating income	53.4	21.1	74.5
Operating expenses	(17.4)	(5.4)	(22.8)
Provisions for losses	(5.4)	(7.9)	(13.3)
	30.6	7.8	38.4
Fair value net gains / (losses)	1.2	(0.1)	1.1
Operating profit	31.8	7.7	39.5
Tax charge			(11.0)
Profit after taxation			28.5

Year ended 30 September 2011

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	214.7	43.3	258.0
Interest payable	(114.0)	(8.2)	(122.2)
Net interest income	100.7	35.1	135.8
Other operating income	7.0	8.1	15.1
Total operating income	107.7	43.2	150.9
Operating expenses	(34.8)	(10.6)	(45.4)
Provisions for losses	(5.6)	(18.8)	(24.4)
	67.3	13.8	81.1
Fair value net gains / (losses)	(0.2)	(0.1)	(0.3)
Operating profit	67.1	13.7	80.8
Tax charge			(21.2)
Profit after taxation			59.6

The assets of the segments listed above are:

	31 Mar 2012 £m	31 Mar 2011 £m	30 Sept 2011 £m	30 Sept 2010 £m
First Mortgages	**9,681.4**	9,934.3	10,009.3	10,083.0
Consumer Finance	**530.1**	567.6	478.9	562.6
Total assets	**10,211.5**	10,501.9	10,488.2	10,645.6

4. OTHER OPERATING INCOME

	31 Mar 2012 £m	31 Mar 2011 £m	30 Sept 2011 £m
Loan account fee income	**2.8**	3.1	5.7
Insurance income	**1.2**	0.5	1.9
Third party servicing	**1.7**	2.7	5.8
Other income	**0.7**	0.8	1.7
	6.4	7.1	15.1

5. COST:INCOME RATIO

Cost:income ratio is derived as follows:

	31 Mar 2012	31 Mar 2011	30 Sept 2011
Operating expenses (£m)	**25.2**	22.8	45.4
Total operating income (£m)	**82.3**	74.5	150.9
Cost ÷ Income	**30.6%**	30.6%	30.1%

6. FAIR VALUE NET GAINS / (LOSSES)

The fair value net gain / (loss) represents the accounting volatility on derivative instruments which are matching risk exposure on an economic basis generated by the requirements of IAS 39. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The losses are primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities. Such differences will reverse over time and have no impact on the cash flows of the Group.

7. UNDERLYING PROFIT

Underlying profit is determined by excluding from the operating result fair value accounting adjustments arising from the Group's hedging arrangements.

	31 Mar 2012	31 Mar 2011	30 Sept 2011
	£m	£m	£m
First Mortgages			
Profit before tax for the period (note 3)	**30.6**	31.8	67.1
Exclude: Fair value (gains) / losses	**(1.3)**	(1.2)	0.2
	29.3	30.6	67.3
Consumer Finance			
Profit before tax for the period (note 3)	**14.2**	7.7	13.7
Exclude: Fair value losses / (gains)	**0.3**	0.1	0.1
	14.5	7.8	13.8
Total			
Profit before tax for the period	**44.8**	39.5	80.8
Exclude: Fair value (gains) / losses	**(1.0)**	(1.1)	0.3
Underlying profit before tax	**43.8**	38.4	81.1

8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

Income tax for the six months ended 31 March 2012 is charged at 24.8% (six months ended 31 March 2011: 27.8%, year ended 30 September 2011: 26.2%), representing the best estimate of the annual effective rate of income tax expected for the full year, applied to the pre-tax income of the period.

9. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

		31 Mar 2012	31 Mar 2011	30 Sept 2011
Profit for the period (£m)		**33.7**	28.5	59.6
Basic weighted average number of ordinary shares ranking for dividend during the period (million)		**296.1**	295.3	295.3
Dilutive effect of the weighted average number of share options and incentive plans in issue during the period (million)		**9.3**	9.5	8.2
Diluted weighted average number of ordinary shares ranking for dividend during the period (million)		**305.4**	304.8	303.5
Earnings per ordinary share	- basic	**11.4p**	9.7p	20.2p
	- diluted	**11.0p**	9.3p	19.6p

10. INTANGIBLE ASSETS

Intangible assets at net book value comprise:

	31 Mar 2012 £m	31 Mar 2011 £m	30 Sept 2011 £m	30 Sept 2010 £m
Goodwill	**1.6**	1.6	1.6	1.6
Computer software	**1.5**	0.9	1.1	0.4
Other intangibles	**6.3**	6.9	6.6	7.2
Total assets	**9.4**	9.4	9.3	9.2

11. FINANCIAL ASSETS

	Note	**31 Mar 2012 £m**	31 Mar 2011 £m	30 Sept 2011 £m	30 Sept 2010 £m
First mortgage loans		**8,325.6**	8,380.3	8,360.4	8,475.6
Consumer loans		**419.4**	393.7	363.8	435.6
Loans to customers		**8,745.0**	8,774.0	8,724.2	8,911.2
Fair value adjustments from portfolio hedging		**1.7**	4.2	3.4	8.6
Investments in securities		**13.3**	-	11.8	-
Derivative financial assets	12	**950.5**	1,141.7	1,151.8	1,160.3
Total assets		**9,710.5**	9,919.9	9,891.2	10,080.1

12. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Note	**31 Mar 2012 £m**	31 Mar 2011 £m	30 Sept 2011 £m	30 Sept 2010 £m
Derivative financial assets	11	**950.5**	1,141.7	1,151.8	1,160.3
Derivative financial liabilities	18	**(5.9)**	(9.3)	(9.1)	(17.3)
		944.6	1,132.4	1,142.7	1,143.0
Of which:					
Foreign exchange basis swaps		**947.0**	1,133.8	1,145.8	1,148.7
Other derivatives		**(2.4)**	(1.4)	(3.1)	(5.7)
		944.6	1,132.4	1,142.7	1,143.0

The Group's securitisation borrowings are denominated in sterling, euros and US dollars. All currency borrowings are swapped at inception so that they have the effect of sterling borrowings. These swaps provide an effective hedge against exchange rate movements, but the requirement to carry them at fair value leads, when exchange rates have moved significantly since the issue of the notes, to large balances for the swaps being carried in the balance sheet. This is currently the case with both euro and US dollar swaps, although the debit balance is compensated for by retranslating the borrowings at the current exchange rate.

13. CASH AND CASH EQUIVALENTS

Only 'Free Cash' is unrestrictedly available for the Group's general purposes. Cash received in respect of loan assets is not immediately available, due to the terms of the warehouse facilities and the securitisations. 'Cash and Cash Equivalents' also includes balances held by the Trustees of the Paragon Employee Share Ownership Plans which may only be used to invest in the shares of the Company, pursuant to the aims of those plans.

The total 'Cash and Cash Equivalents' balance may be analysed as shown below:

	31 Mar 2012 £m	31 Mar 2011 £m	30 Sept 2011 £m	30 Sept 2010 £m
Free cash	**104.9**	179.7	195.0	147.8
Securitisation cash	**368.7**	374.5	374.1	387.2
ESOP cash	**2.2**	1.8	2.5	1.7
	475.8	556.0	571.6	536.7

14. CALLED-UP SHARE CAPITAL

Movements in the issued share capital in the period were:

	Six months to 31 Mar 2012 Number	Six months to 31 Mar 2011 Number	Year to 30 Sept 2011 Number
Ordinary shares of £1 each			
At 1 October 2011	**299,745,445**	299,454,078	299,454,078
Shares issued	**1,680,000**	291,367	291,367
	301,425,445	299,745,445	299,745,445

Shares issued in the period were issued to the Trustees of the Group's ESOP Trusts in order that they could fulfil their obligations under the Group's share based award arrangements.

15. RESERVES

Intangible assets at net book value comprise:

	31 Mar 2012 £m	31 Mar 2011 £m	30 Sept 2011 £m	30 Sept 2010 £m
Share premium account	**64.1**	64.1	64.1	64.1
Merger reserve	**(70.2)**	(70.2)	(70.2)	(70.2)
Cash flow hedging reserve	**1.6**	1.5	1.8	1.4
Profit and loss account	**517.8**	473.6	495.0	450.5
	513.3	469.0	490.7	445.8

16. EQUITY DIVIDEND

Amounts recognised as distributions to equity shareholders in the period:

	31 Mar 2012 £m	31 Mar 2011 £m	30 Sept 2011 £m
Final dividend for the year ended 30 September 2011 of 2.65p per share	**7.9**	-	-
Final dividend for the year ended 30 September 2010 of 2.40p per share	**-**	7.1	7.1
Interim dividend for the year ended 30 September 2011 of 1.35p per share	**-**	-	4.0
	7.9	7.1	11.1

An interim dividend of 1.50p per share is proposed (2011: 1.35p per share), payable on 27 July 2012 with a record date of 6 July 2012. The amount expected to be absorbed by this dividend, based on the number of shares in issue at the balance sheet date is £4.5m (2011: £4.0m). The interim dividend will be recognised in the accounts when it is paid.

17. OWN SHARES

	31 Mar 2012 £m	31 Mar 2011 £m	30 Sept 2011 £m
Treasury shares			
At 31 March 2012 and 1 October 2011	**39.5**	39.5	39.5
ESOP shares			
At 1 October 2011	**8.9**	13.7	13.7
Shares purchased	**0.6**	1.2	1.2
Shares allotted	**1.7**	0.3	0.3
Options exercised	**(2.0)**	(1.2)	(6.3)
At 31 March 2012	**9.2**	14.0	8.9
Total at 31 March 2012	**48.7**	53.5	48.4
Total at 1 October 2011	**48.4**	53.2	53.2
Number of shares held			
Treasury	**668,900**	668,900	668,900
ESOP	**2,602,501**	4,206,184	2,487,688
Balance at 31 March 2012	**3,271,401**	4,875,084	3,156,588

18. FINANCIAL LIABILITIES

	31 Mar 2012 £m	31 Mar 2011 £m	30 Sept 2011 £m	30 Sept 2010 £m
Current liabilities				
Finance lease liability	**1.2**	1.2	1.2	1.1
Bank loans and overdrafts	**0.5**	0.8	0.6	0.1
	1.7	2.0	1.8	1.2
Non-current liabilities				
Asset backed loan notes	**7,850.6**	8,168.7	8,049.7	8,336.2
Corporate bond	**110.3**	113.6	112.0	115.8
Finance lease liability	**10.9**	12.2	11.6	12.8
Bank loans and overdrafts	**1,389.6**	1,413.6	1,492.1	1,403.6
Derivative financial liabilities	**5.9**	9.3	9.1	17.3
	9,367.3	9,717.4	9,674.5	9,885.7

Details of changes in the Group's borrowings since the year end are given in note 19 below. Further details of derivative financial instruments are given in note 12.

19. BORROWINGS

All borrowings described in the Group Accounts for the year ended 30 September 2011 remained in place throughout the period.

On 10 November 2011 a Group company, Paragon Mortgages (No. 16) PLC, issued £131.7m of AAA rated, sterling mortgage backed floating rate notes at par. The interest margin above LIBOR on the notes was 2.75% and the proceeds were used to pay down existing warehouse debt. As with the Group's other securitisation borrowings, the securitisation is structured so that payments of interest and principal are limited to cash generated from the funded assets and there is no recourse to Group funds. Therefore the issue of these notes does not impact on the liquidity risk of the Group.

Repayments made in respect of the Group's borrowings are shown in note 23.

20. RETIREMENT BENEFIT OBLIGATIONS

The defined benefit obligation at 31 March 2012 has been calculated on a year-to-date basis, using the latest actuarial valuation for IAS 19 purposes at 30 September 2011. There have been movements in financial market conditions since that date, requiring an adjustment to the actuarial assumptions underlying the calculation of the defined benefit obligation at 31 March 2012.

The defined benefit plan assets have been updated to reflect their market value at 31 March 2012. Differences between the expected and actual return on assets have been recognised as an actuarial loss in other comprehensive income.

21. NET CASH FLOW FROM OPERATING ACTIVITIES

	Six months to 31 Mar 2012 £m	Six months to 31 Mar 2011 £m	Year to 30 Sept 2011 £m
Profit before tax	**44.8**	39.5	80.8
Non-cash items included in profit and other adjustments			
Depreciation of property, plant and equipment	**1.0**	1.0	2.0
Amortisation of intangible assets	**0.5**	0.4	0.9
Foreign exchange movements on borrowings	**(198.6)**	(14.9)	(3.2)
Other non-cash movements on borrowings	**(0.6)**	(1.1)	(1.2)
Impairment losses on loans to customers	**13.3**	13.3	24.4
Charge for share based remuneration	**1.0**	0.9	2.0
Loss on disposal of property, plant and equipment	**-**	-	(0.1)
Net (increase) / decrease in operating assets			
Loans to customers	**(35.6)**	123.9	150.8
Derivative financial instruments	**201.3**	18.6	8.5
Fair value of portfolio hedges	**1.7**	4.4	5.2
Other receivables	**0.3**	0.5	1.2
Net (decrease) / increase in operating liabilities			
Derivative financial instruments	**(3.2)**	(8.0)	(8.2)
Other liabilities	**0.4**	2.5	3.4
Cash generated by operations	**26.3**	181.0	266.5
Income taxes (paid)	**(7.1)**	(9.4)	(20.4)
Net cash flow generated by operating activities	**19.2**	171.6	246.1

22. NET CASH FLOW USED IN INVESTING ACTIVITIES

	Six months to 31 Mar 2012 £m	Six months to 31 Mar 2011 £m	Year to 30 Sept 2011 £m
Proceeds on disposal of property, plant and equipment	**0.2**	0.6	0.9
Purchases of property, plant and equipment	**(1.2)**	(0.6)	(2.0)
Purchases of intangible assets	**(0.6)**	(0.6)	(1.0)
Net cash (utilised) by investing activities	**(1.6)**	(0.6)	(2.1)

23. NET CASH FLOW FROM FINANCING ACTIVITIES

	Six months to 31 Mar 2012 £m	Six months to 31 Mar 2011 £m	Year to 30 Sept 2011 £m
Dividends paid (note 16)	**(7.9)**	(7.1)	(11.1)
Issue of asset backed floating rate notes	**129.9**	-	-
Repayment of asset backed floating rate notes	**(131.0)**	(153.0)	(284.1)
Capital element of finance lease payments	**(0.7)**	(0.5)	(1.1)
Movement on bank facilities	**(103.3)**	9.4	87.1
Purchase of shares (note 17)	**(0.6)**	(1.2)	(1.2)
Sale of shares	**0.3**	-	0.8
Net cash (utilised) by financing activities	**(113.3)**	(152.4)	(209.6)

24. NET ASSET VALUE PER SHARE

	Note	**31 Mar 2012**	31 Mar 2011	30 Sept 2011	30 Sept 2010
Total equity (£m)		**766.0**	715.2	742.0	692.0
Outstanding issued shares (m)	14	**301.4**	299.8	299.7	299.5
Treasury shares (m)	17	**(0.7)**	(0.7)	(0.7)	(0.7)
Shares held by ESOP schemes (m)	17	**(2.6)**	(4.2)	(2.5)	(3.4)
		298.1	294.9	296.5	295.4
Net asset value per £1 ordinary share		**257p**	243p	250p	234p

25. RELATED PARTY TRANSACTIONS

In the six months ended 31 March 2012, the Group has continued the related party relationships described in note 62 on page 116 of the Annual Report and Accounts of the Group for the financial year ended 30 September 2011. Related party transactions in the period comprise the compensation of the Group's key management personnel and fees paid to a non-executive director in respect of his appointment as a Trustee of the Group Pension Plan. There have been no changes in these relationships which could have a material effect on the financial position or performance of the Group in the period.

Save for the transactions referred to above, there have been no related party transactions in the six months ended 31 March 2012.

Independent Review Report

to The Paragon Group of Companies PLC

INTRODUCTION

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2012 which comprises the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 25. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
23 May 2012

Principal Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. In the opinion of the directors these risks have not changed materially from those described on pages 44 and 45 of the last annual report and accounts of the Company for the year ended 30 September 2011. These risks are summarised below.

ECONOMIC ENVIRONMENT

Further deterioration in the general economy may adversely affect all aspects of the Group's business. Adverse economic conditions might increase the number of borrowers that default on their loans, or adversely affect funding structures, which may increase the Group's costs and could result in losses on some of the Group's assets.

Changes in interest rates may adversely affect the Group's net income and profitability.

CREDIT RISK

As a primary lender the Group faces credit risk as an inherent component of its lending activities. Adverse changes in the credit quality of the Group's borrowers, a general deterioration in UK economic conditions or adverse changes arising from systematic risks in UK and global financial systems could reduce the recoverability and value of the Group's assets.

OPERATIONAL RISK

The Group's activities subject it to operational risks relating to its ability to implement and maintain effective systems to process the high volume of transactions with customers. A significant breakdown of the IT systems of the Group might adversely impact the ability of the Group to operate its business effectively.

COMPETITOR RISK

The Group faces strong competition in all of the core markets in which it operates. There is a danger that its profitability and/or market share may be impaired.

GOVERNMENTAL, LEGISLATIVE AND REGULATORY RISK

The market sectors to which the Group supplies products, and the capital markets from which it has historically obtained much of its funding have been subject to intervention by Government and other regulatory bodies. To the extent that such actions disadvantage the Group, when compared to other market participants, they present a risk to the Group.

MANAGEMENT

The success of the Group is dependent on recruiting and retaining skilled senior management and personnel.

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