Half-Yearly Financial Report

The Paragon Group of Companies PLC

Six months ended 31 March 2013

paragon

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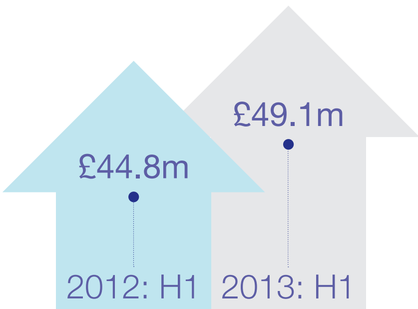
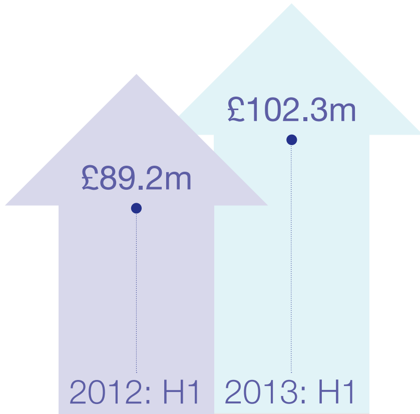
Financial Highlights



pre-tax profit
up 9.6%



buy-to-let advances

£819.9m

shareholders' funds
at 31 March 2013

Earnings per share **12.6p**
up from 11.4p in 2012: H1

2.4p Interim dividend
up from 1.5p in 2012: H1

£241.2 million buy-to-let pipeline more than doubled

£57.6 million invested in consumer loan portfolios in the period

Interim Management Report

The Group achieved strong growth in profits in the six months ended 31 March 2013 and made significant progress in laying the foundations for further, sustainable growth for the future. Our portfolio of loans, including acquired assets, continues to perform well and the key performance metrics remain similar to recent periods: organic cash generation remains strong; redemptions remain low; and, across the portfolio, credit performance is strong, in line with our expectations.

During the period, growth has been achieved in our Idem Capital portfolio acquisitions business, which added £57.6 million of new investments, in Paragon Mortgages, where buy-to-let loans of £102.3 million were completed, and in our Moorgate loans servicing business, where agreements to manage two new portfolios have been completed.

The first half of the year has also been a period of significant investment aimed at securing growth in future years. This investment has taken two forms, first, increasing funding capacity for the existing businesses and, second, undertaking preparatory work to establish new business activities.

On funding, warehouse capacity for buy-to-let lending has been increased in the period to £450.0 million. This amount was considerably in excess of the funding requirements of the mortgage business at the start of the year but, together with the success of the Paragon Mortgages (No. 17) securitisation in October, has provided the capacity to allow Paragon Mortgages to significantly increase its lending activity. This is evident in the more than doubling of the pipeline of new business compared to that at the previous half year end, which we expect to result in a substantial increase in loan completions in subsequent months. In addition, the Company completed its first retail bond offering in March, a £60.0 million issue maturing in 2020, which, together with our organic cashflow, will support growth in both Paragon Mortgages and Idem Capital going forward.

On new business activities, the Group is undertaking work in preparation for a return to new consumer loan originations. Whilst this work is ongoing, it is currently envisaged that these new activities may be most effectively undertaken within a banking subsidiary, to be established, subject to regulatory consent, within the Group and funded primarily through retail deposits. Further information will be provided to shareholders in due course on the progress of this development.

Underlying profit, before movements in fair values for hedging instruments, was 10.0% higher at £48.2 million (note 7), compared with £43.8 million for the first half of 2012. The increase was driven primarily by profits from acquired loan portfolios. Profit on ordinary activities before taxation was 9.6% higher at £49.1 million, compared with £44.8 million for the first half of 2012 after fair value movements.

Earnings per share were 10.5% higher at 12.6p (2012 H1: 11.4p) and the Group's return on equity (note 25) increased to 9.5% from 9.1% in the first half of the previous year.

In light of these results and in accordance with our dividend policy, the Company will pay an interim dividend of 2.4p per share (H1 2012: 1.50p per share), a total of £7.2 million (H1 2012: £4.5 million), on 26 July 2013 to all shareholders on the register on 5 July 2013. The increase from the interim dividend for H1 2012 moves the interim dividend in line with our revised policy to target a full year dividend cover of 3.0 to 3.5 times by 2016, which we announced with the 2012 full year results and which was reflected in the total dividend paid for the year ended 30 September 2012.

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. Acquired assets and income derived from servicing third party portfolios are included within the results for the related operating division. 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 2013 £m	Six months to 31 Mar 2012 £m
Underlying profit		
First Mortgages	**30.3**	29.3
Consumer Finance	**17.9**	14.5
	48.2	43.8

Net interest income increased by 5.5% to £80.1 million from £75.9 million for the first half of 2012, the increase arising from origination of mortgage loans and investment in consumer finance loan assets which, in both amount and margin, was greater than the assets that redeemed during the period. Overall, margins on buy-to-let assets remained at broadly similar levels to the same period last year, whilst margins on the consumer assets increased owing to higher margins on purchased, unsecured loan assets.

As we reported at the year end, in September 2012 the Group signed an additional £200.0 million revolving warehouse facility provided by Lloyds Bank to enable the future expansion of buy-to-let lending. The facility was brought into use during April, and will continue to be used, in addition to the £250.0 million warehouse provided by Macquarie, to finance the expected increase in lending volumes in the second half of the year. The cost of carrying the additional facility was £1.3 million during the period and this has been charged within interest payable.

Other operating income was £6.7 million for the period, compared with £6.4 million for the first half of 2012. The increase from the first half of 2012 reflects, principally, a higher level of third party fee income as a result of the numbers of third party assets brought under the Group's administration in this and the preceding period.

Operating expenses increased by 16.3% to £29.3 million from £25.2 million for the first half of 2012. There were two principal reasons for this: the charge for share based payments increased by £1.8 million, principally caused by the impact of the increase in the Company's share price during the period; and costs of £0.7 million were incurred, mainly in respect of professional advice, on investigating the feasibility of establishing a bank subsidiary within the Group to fund consumer finance originations.

The cost:income ratio was impacted by these additional charges and by the deduction from net interest income in respect of the cost of carrying the new warehouse as outlined above, increasing to 33.8% (note 5), from 30.6% for the corresponding period last year. The increase was in line with expectations and, if the three additional factors mentioned above are excluded, the ratio reduces to an underlying measure of 30.4% which is consistent with the level for the corresponding period last year. The Board remains focused on controlling operating costs through the application of rigorous budgeting and monitoring procedures.

The charge of £9.3 million for loan impairment has reduced from that for the first half of 2012 (2012 H1: £13.3 million). As a percentage of loans to customers (note 11) the impairment charge has reduced to 0.11% compared to 0.15% in the first half of 2012 and has also remained stable compared to the second half of 2012. 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, financing the investments in loan portfolios and credit enhancement for mortgage originations. Free cash balances were £173.8 million at 31 March 2013 (2012 H1: £104.9 million) (note 13), which included £60.0 million raised from the retail bond issue in March.

Yield curve movements during the period resulted in hedging instrument fair value net gains of £0.9 million (2012 H1: £1.0 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 23.0%, compared with 24.8% for the first half of last year, reflecting principally a lower UK Corporation Tax rate.

Profits after taxation of £37.8 million have been transferred to shareholders' funds, which totalled £819.9 million at 31 March 2013, representing a value of £2.73 per share (2012 H1: £2.57) (Note 24).

The liability for retirement benefit obligations, in respect of which the actuarial loss has been recognised in the statement of comprehensive income, increased to £29.1 million at 31 March 2013 (31 March 2012: £16.9 million). This increase has arisen principally as a consequence of sharply reduced UK bond yields and higher inflation expectations, as financial markets reacted to further Eurozone uncertainties which surrounded the Cyprus bailout.

The information on related party transactions required by DTR 4.2.8(1) of the Disclosure and Transparency Rules is given in note 26, and a summary of the principal risks and uncertainties faced by the Group is given on page 27.

REVIEW OF OPERATIONS

OPERATING SEGMENTS

First Mortgages

The increase in warehouse funding capacity to £450.0 million during the first half of the year has enabled Paragon Mortgages to increase buy-to-let lending activity significantly. Application volumes increased materially during the period and the pipeline of new business at 31 March 2013, at £241.2 million, was more than double the £103.0 million a year earlier. In view of the time taken to complete housing transactions, this growth in activity was not fully reflected in loan completions in the period, which were 14.7% higher than the comparable period last year at £102.3 million (2012 H1: £89.2 million) and we expect a significant increase in loan completions in the second half of this year.

Market data continues to record high demand for private rented property. The latest Lettings Survey produced by the Royal Institution of Chartered Surveyors shows tenant demand continuing to grow at a faster rate than properties are becoming available for rent, a constant trend in the market in recent years. This combination of demand exceeding the supply of rental property continues to drive rental inflation, with surveyors anticipating further rises over the next twelve months. The property index produced by LSL Property Services confirms average rents are up 4.2% on a year ago. Data released in May by the Council of Mortgage Lenders ('CML') showed buy-to-let lending growing strongly compared to the more subdued owner-occupier sector. Total buy-to-let advances in the six months were up 16% compared to the corresponding period last year at £8.8 billion (2012 H1: £7.6 billion) with buy-to-let mortgages representing 13.4% of all outstanding mortgage balances at 31 March 2013 (2012 H1: 12.9%).

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 £8,198.3 million at 31 March 2013, compared with £8,196.4 million at 30 September 2012. The low level of redemptions of 2.0% (annualised) compares with 2.1% 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 0.40%, including acquired loans and receivership cases but excluding portfolios held for sale, at 31 March 2013 (31 March 2012: 0.55%, 30 September 2012: 0.48%) and remains below the comparable figure for the buy-to-let industry of 1.22% at the same date, as reported by the CML (31 March 2012: 1.69%, 30 September 2012: 1.51%). On the portfolio originated since 2010, arrears of three months or more remain at zero. The impairment charge attributable to First Mortgages decreased to £4.2 million for the period from £7.4 million for the corresponding period in 2012.

The number of properties in receivership had reduced by 8.2% to 1,405 at 31 March 2013 (31 March 2012: 1,530). At the end of March 2013, 94.6% of the properties available for letting in the receiver of rent portfolio were let (31 March 2012: 92.3%, 30 September 2012: 94.2%) with total rental income continuing to exceed the associated mortgage payments.

The owner-occupied book reduced to £85.4 million from £114.9 million during the twelve months ended 31 March 2013 and performed in line with our 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 on other lending markets, portfolio acquisitions and other sources of revenue generation.

Consumer Finance

At 31 March 2013, the value of loans outstanding on the Consumer Finance books was £398.1 million, compared with £399.0 million at 30 September 2012. During the period the Group has invested £36.7 million in the purchase of unsecured loan balances (covered fully below). The Consumer Finance book continues to perform in line with our expectations.

The Group's secured loan portfolio at 31 March 2013, including the acquired assets, was £268.0 million (30 September 2012: £279.9 million). The unsecured loan, retail finance and car finance portfolios, including the acquired assets, totalled £130.1 million at 31 March 2013 (30 September 2012: £119.1 million).

PORTFOLIO ACQUISITIONS AND SERVICING

In recent years the development of the Group's consumer finance business has been focussed on investing in loan portfolios through Idem Capital and the servicing of third party loan portfolios as opportunities are created through the ongoing process of financial institutions disposing of loan assets. The Group is firmly established as one of the top consumer debt buyers in the UK. In addition to assets acquired in its own right, Idem, through its sister companies, Moorgate Loan Servicing and Arden Credit Management, has established two further servicing contracts with co-investment partners during the period. 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 £15.4 million (2012 H1: £11.8 million). A number of potential investment opportunities are currently under review and the Group's track record in loan servicing, risk management and portfolio investment positions it well to continue to exploit similar opportunities as they arise in future.

Idem Capital

Idem Capital invests in loan portfolios either as principal, where Idem acquires pools in its own right, or as co-investor alongside other partners with, typically, Moorgate Loan Servicing appointed to act as servicer. Co-investing has the potential for higher returns where the Group also derives income from servicing the loans within the underlying portfolio. Investments are made only after significant due diligence work on the portfolio and sensitivity testing of potential returns.

During the period, the Group's investment division, Idem Capital, purchased £36.7 million of unsecured loan assets and invested a further £20.9 million in loan portfolios through structured entities as a co-investor. By 31 March 2013, total investment in portfolios by Idem Capital since 2009 had reached £219.4 million, of which £175.2 million was outstanding at 31 March 2013.

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 further portfolios, comprising 29,600 accounts, on behalf of third parties (31 March 2012: 111,100 accounts). At 31 March 2013, 47.6% of accounts under management by the Group were managed on behalf of third parties (31 March 2012: 49.2%). At the end of the period, an agreement to take on the servicing of a further 20,400 third party accounts during the second half of the year was in place.

REGULATION

The proposed European Directive on credit agreements relating to residential property, which may impose additional disclosure and other requirements for all mortgage lending to consumers secured on residential property, has yet to be concluded. It has been reported that the UK Government has negotiated an exemption from the Directive for buy-to-let lending but this has yet to be formally ratified. We will continue to maintain an active dialogue with the UK and European regulatory authorities as these proposals develop.

In the UK the Prudential Regulation Authority, the Financial Conduct Authority ('FCA') and the Bank of England have now variously assumed the functions of the Financial Services Authority. With effect from April 2014, responsibility for the regulation of consumer credit, including second charge mortgage lending, will pass from the Office of Fair Trading to the FCA. We do not expect this to have a significant impact on the current operations of the Group.

FUNDING

The Group funds its mortgage originations through two revolving warehouse facilities, a £200.0 million facility, agreed in September 2012, provided by the wholesale division of Lloyds Bank and a £250.0 million facility provided by Macquarie Bank which was renewed, increased from £200.0 million and extended for a further two years in November 2012. This latter facility will now be available until 13 December 2016 (and for drawing until 13 December 2014). Total warehouse capacity within the Group is now £450.0 million, supporting our growth plans in the buy-to-let market, where we see continued landlord confidence in the sector, supported by strong tenant demand.

Paragon Mortgages uses the warehouse facilities to originate mortgage loans prior to arranging term funding in the securitisation markets. On 25 October 2012, the Group completed a £200.0 million securitisation of buy-to-let loans, through Paragon Mortgages (No. 17) PLC ('PM17'). PM17 comprises £175.0 million of AAA rated notes, £10.5 million of AA rated notes and £10.0 million of A rated notes at margins of 135, 190 and 290 basis points over three month LIBOR respectively. £4.5 million of subordinated notes were retained by the Group, which also invested £6.0 million in the first loss fund, bringing the Group's total investment in PM17 to £10.5 million, or 5.25% of the issue amount.

The pricing of the PM17 transaction reflected the strong credit profile of the Group's buy-to-let assets, our experience as an issuer of high quality bonds in the mortgage backed securities market and the secondary effects of the Funding for Lending Scheme on Residential Mortgage Backed Security spreads. This was only the second securitisation of buy-to-let loans since the credit crunch, the first to issue junior, single A rated, bonds since 2008 and was the Group's 55th securitisation since pioneering the methodology in 1987. We expect to return to the securitisation markets regularly as business volumes increase.

In February 2013 the Group issued £60.0 million of 6.0% sterling bonds due December 2020. The bonds, listed on the London Stock Exchange Order Book for Retail Bonds, were issued to provide additional working capital for the Group. This was the initial transaction under a £1.0 billion Euro Medium Term Note Programme announced in January 2013. The bonds allow us to diversify our funding base and extend the tenor of our borrowings.

CONCLUSION

The Group has made significant progress in the six months to 31 March 2013. Buy-to-let lending activity has increased considerably and strong growth in lending volumes is expected in the second half of the year. Idem Capital has increased its portfolio through further investments in the period, which are expected to contribute to second half profits, and is actively engaged in reviewing potential acquisitions. The new retail bond programme and the increased warehouse capacity provide access to funding to support future growth in Idem Capital and Paragon Mortgages. With new business activities also in development, the Board is confident that the Group is well positioned for future growth.

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
21 May 2013

Condensed Financial Statements

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 March 2013 (Unaudited)

	Note	**Six months to 31 Mar 2013 £m**	Six months to 31 Mar 2012 £m	Year to 30 Sept 2012 £m
Interest receivable		**135.4**	144.6	293.8
Interest payable and similar charges		**(55.3)**	(68.7)	(136.0)
Net interest income		**80.1**	75.9	157.8
Other operating income	4	**6.7**	6.4	12.4
Total operating income		**86.8**	82.3	170.2
Operating expenses		**(29.3)**	(25.2)	(51.9)
Provisions for losses		**(9.3)**	(13.3)	(24.1)
Operating profit before fair value items		**48.2**	43.8	94.2
Fair value net gains	6	**0.9**	1.0	1.3
Operating profit being profit on ordinary activities before taxation		**49.1**	44.8	95.5
Tax charge on profit on ordinary activities	8	**(11.3)**	(11.1)	(23.3)
Profit on ordinary activities after taxation		**37.8**	33.7	72.2

	Note	**Six months to 31 Mar 2013**	Six months to 31 Mar 2012	Year to 30 Sept 2012
Dividend – Rate per share for the period	16	**2.4p**	1.5p	6.0p
Basic earnings per share	9	**12.6p**	11.4p	24.2p
Diluted earnings per share	9	**12.2p**	11.0p	23.5p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 31 March 2013 (Unaudited)

	Note	**Six months to 31 Mar 2013 £m**	Six months to 31 Mar 2012 £m	Year to 30 Sept 2012 £m
Profit for the period		**37.8**	33.7	72.2
Other comprehensive income				
Actuarial (loss) on pension scheme	20	**(15.7)**	(3.0)	(0.5)
Cash flow hedge gains / (losses) taken to equity		**2.4**	(0.3)	(1.5)
Tax on items taken directly to equity		**3.0**	0.7	0.2
Other comprehensive income for the period net of tax		**(10.3)**	(2.6)	(1.8)
Total comprehensive income for the period		**27.5**	31.1	70.4

CONSOLIDATED BALANCE SHEET

31 March 2013 (Unaudited)

	Note	**31 Mar 2013 £m**	31 Mar 2012 £m	30 Sept 2012 £m	30 Sept 2011 £m
Assets employed					
Non-current assets					
Intangible assets	10	**9.0**	9.4	9.1	9.3
Property, plant and equipment		**10.2**	11.4	10.7	11.4
Financial assets	11	**9,849.6**	9,710.5	9,505.2	9,891.2
		9,868.8	9,731.3	9,525.0	9,911.9
Current assets					
Other receivables		**7.7**	4.4	7.3	4.7
Cash and cash equivalents	13	**561.4**	475.8	504.8	571.6
		569.1	480.2	512.1	576.3
Total assets		**10,437.9**	10,211.5	10,037.1	10,488.2
Financed by					
Equity shareholders' funds					
Called-up share capital	14	**304.3**	301.4	301.8	299.7
Reserves	15	**564.6**	513.3	550.2	490.7
Share capital and reserves		**868.9**	814.7	852.0	790.4
Own shares	17	**(49.0)**	(48.7)	(48.5)	(48.4)
Total equity		**819.9**	766.0	803.5	742.0
Current liabilities					
Financial liabilities	18	**2.7**	1.7	2.0	1.8
Current tax liabilities		**10.9**	13.0	13.3	10.7
Other liabilities		**37.9**	39.4	36.7	38.3
		51.5	54.1	52.0	50.8
Non-current liabilities					
Financial liabilities	18	**9,529.6**	9,367.3	9,159.0	9,674.5
Retirement benefit obligations	20	**29.1**	16.9	13.9	14.4
Deferred tax		**6.8**	5.9	7.6	5.0
Other liabilities		**1.0**	1.3	1.1	1.5
		9,566.5	9,391.4	9,181.6	9,695.4
Total liabilities		**9,618.0**	9,445.5	9,233.6	9,746.2
		10,437.9	10,211.5	10,037.1	10,488.2

The condensed financial statements for the half year were approved by the Board of Directors on 21 May 2013.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 March 2013 (Unaudited)

	Note	**Six months to 31 Mar 2013 £m**	Six months to 31 Mar 2012 £m	Year to 30 Sept 2012 £m
Net cash flow generated by operating activities	21	**37.9**	19.2	117.3
Net cash (utilised) by investing activities	22	**(1.0)**	(1.6)	(2.2)
Net cash generated / (utilised) by financing activities	23	**19.1**	(113.3)	(181.9)
Net increase / (decrease) in cash and cash equivalents		**56.0**	(95.7)	(66.8)
Opening cash and cash equivalents		**504.2**	571.0	571.0
Closing cash and cash equivalents		**560.2**	475.3	504.2
Represented by balances within				
Cash and cash equivalents	13	**561.4**	475.8	504.8
Financial liabilities		**(1.2)**	(0.5)	(0.6)
		560.2	475.3	504.2

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

Six months ended 31 March 2013 (Unaudited)

	Note	**Six months to 31 Mar 2013 £m**	Six months to 31 Mar 2012 £m	Year to 30 Sept 2012 £m
Total comprehensive income for the period		**27.5**	31.1	70.4
Dividends paid	16	**(13.5)**	(7.9)	(12.3)
Shares issued		**2.5**	1.7	-
Net movement in own shares		**(0.5)**	(0.3)	(0.1)
Deficit on transactions in own shares		**(2.5)**	(1.7)	(0.2)
Charge for share based remuneration		**1.4**	1.0	2.8
Tax on share based remuneration		**1.5**	0.1	0.9
Total movements in equity in the period		**16.4**	24.0	61.5
Opening equity		**803.5**	742.0	742.0
Closing equity		**819.9**	766.0	803.5

Selected Notes to The Accounts

For the six months ended 31 March 2013 (Unaudited)

1. GENERAL INFORMATION

The condensed financial statements for the six months ended 31 March 2013 and for the six months ended 31 March 2012 have not been audited.

The figures shown above for the years ended 30 September 2012 and 30 September 2011 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, 51 Homer Road, Solihull, West Midlands, B91 3QJ.

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 2012, which are expected to be used in the preparation of the financial statements of the Group for the year ending 30 September 2013.

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 27.

Note 5 to the accounts for the year ended 30 September 2012 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. The Group has a formalised process of budgeting, reporting and review, which provides information to the directors which is used to ensure the adequacy of resources available for the Group to meet its business objectives.

The Group's securitisation funding structures ensure that a substantial proportion of the Group's originated loan portfolio is match-funded to maturity. Repayment of the securitisation borrowings is restricted to funds generated by the underlying assets and there is limited recourse to the Group's general funds. Recent and current loan originations financed through the Group's available warehouse facilities are refinanced through securitisation from time to time. None of the Group's debt matures before 2017, when the £110.0 million corporate bond is repayable. During the period the Group raised a further £60.0 million though the issue of retail bonds and at 31 March 2013 had available free cash balances of £173.8 million. 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 2013

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	104.5	30.9	135.4
Interest payable	(52.3)	(3.0)	(55.3)
Net interest income	52.2	27.9	80.1
Other operating income	2.6	4.1	6.7
Total operating income	54.8	32.0	86.8
Operating expenses	(20.3)	(9.0)	(29.3)
Provisions for losses	(4.2)	(5.1)	(9.3)
	30.3	17.9	48.2
Fair value net gain	0.9	-	0.9
Operating profit	31.2	17.9	49.1
Tax charge			(11.3)
Profit after taxation			37.8

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

Year ended 30 September 2012

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	231.1	62.7	293.8
Interest payable	(128.1)	(7.9)	(136.0)
Net interest income	103.0	54.8	157.8
Other operating income	6.2	6.2	12.4
Total operating income	109.2	61.0	170.2
Operating expenses	(35.2)	(16.7)	(51.9)
Provisions for losses	(12.4)	(11.7)	(24.1)
	61.6	32.6	94.2
Fair value net gains / (losses)	1.6	(0.3)	1.3
Operating profit	63.2	32.3	95.5
Tax charge			(23.3)
Profit after taxation			72.2

The assets of the segments listed above are:

	31 Mar 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m	30 Sept 2011 £m
First Mortgages	**9,860.1**	9,681.4	9,541.3	10,009.3
Consumer Finance	**577.8**	530.1	495.8	478.9
Total assets	**10,437.9**	10,211.5	10,037.1	10,488.2

4. OTHER OPERATING INCOME

	31 Mar 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m
Loan account fee income	**2.1**	2.8	5.0
Insurance income	**1.0**	1.2	2.5
Third party servicing	**3.3**	1.7	3.9
Other income	**0.3**	0.7	1.0
	6.7	6.4	12.4

5. COST:INCOME RATIO

Cost:income ratio is derived as follows:

	31 Mar 2013	31 Mar 2012	30 Sept 2012
Operating expenses (£m)	**29.3**	25.2	51.9
Total operating income (£m)	**86.8**	82.3	170.2
Cost ÷ Income	**33.8%**	30.6%	30.5%

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 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m
First Mortgages			
Profit before tax for the period (note 3)	**31.2**	30.6	63.2
Exclude: Fair value (gains)	**(0.9)**	(1.3)	(1.6)
	30.3	29.3	61.6
Consumer Finance			
Profit before tax for the period (note 3)	**17.9**	14.2	32.3
Exclude: Fair value losses	-	0.3	0.3
	17.9	14.5	32.6
Total			
Profit before tax for the period	**49.1**	44.8	95.5
Exclude: Fair value (gains)	**(0.9)**	(1.0)	(1.3)
Underlying profit before tax	**48.2**	43.8	94.2

8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

Income tax for the six months ended 31 March 2013 is charged at 23.0% (six months ended 31 March 2012: 24.8%, year ended 30 September 2012: 24.4%), 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 2013	31 Mar 2012	30 Sept 2012
Profit for the period (£m)	**37.8**	33.7	72.2
Basic weighted average number of ordinary shares ranking for dividend during the period (million)	**299.8**	296.1	297.8
Dilutive effect of the weighted average number of share options and incentive plans in issue during the period (million)	**10.7**	9.3	9.4
Diluted weighted average number of ordinary shares ranking for dividend during the period (million)	**310.5**	305.4	307.2
Earnings per ordinary share - basic	**12.6p**	11.4p	24.2p
- diluted	**12.2p**	11.0p	23.5p

10. INTANGIBLE ASSETS

Intangible assets at net book value comprise:

	31 Mar 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m	30 Sept 2011 £m
Goodwill	**1.6**	1.6	1.6	1.6
Computer software	**1.6**	1.5	1.4	1.1
Other intangibles	**5.8**	6.3	6.1	6.6
Total assets	**9.0**	9.4	9.1	9.3

11. FINANCIAL ASSETS

	Note	31 Mar 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m	30 Sept 2011 £m
First mortgage loans		**8,283.7**	8,325.6	8,295.6	8,360.4
Consumer loans		**398.1**	419.4	399.0	363.8
Loans to customers		**8,681.8**	8,745.0	8,694.6	8,724.2
Fair value adjustments from portfolio hedging		**0.4**	1.7	1.1	3.4
Investments in structured entities		**26.7**	13.3	9.1	11.8
Derivative financial assets	12	**1,140.7**	950.5	800.4	1,151.8
Total assets		**9,849.6**	9,710.5	9,505.2	9,891.2

12. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Note	31 Mar 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m	30 Sept 2011 £m
Derivative financial assets	11	**1,140.7**	950.5	800.4	1,151.8
Derivative financial liabilities	18	**(2.5)**	(5.9)	(4.6)	(9.1)
		1,138.2	944.6	795.8	1,142.7
Of which:					
Foreign exchange basis swaps		**1,140.1**	947.0	799.5	1,145.8
Other derivatives		**(1.9)**	(2.4)	(3.7)	(3.1)
		1,138.2	944.6	795.8	1,142.7

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 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m	30 Sept 2011 £m
Free cash	**173.8**	104.9	127.7	195.0
Securitisation cash	**385.9**	368.7	374.9	374.1
ESOP cash	**1.7**	2.2	2.2	2.5
	561.4	475.8	504.8	571.6

14. CALLED-UP SHARE CAPITAL

Movements in the issued share capital in the period were:

	Six months to 31 Mar 2013 Number	Six months to 31 Mar 2012 Number	Year to 30 Sept 2012 Number
Ordinary shares of £1 each			
At 1 October 2012	**301,841,614**	299,745,445	299,745,445
Shares issued	**2,475,993**	1,680,000	2,096,169
	304,317,607	301,425,445	301,841,614

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

	31 Mar 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m	30 Sept 2011 £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	**2.5**	1.6	0.7	1.8
Profit and loss account	**568.2**	517.8	555.6	495.0
	564.6	513.3	550.2	490.7

16. EQUITY DIVIDEND

Amounts recognised as distributions to equity shareholders in the period:

	31 Mar 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m
Final dividend for the year ended 30 September 2012 of 4.50p per share	**13.5**	-	-
Final dividend for the year ended 30 September 2011 of 2.65p per share	**-**	7.9	7.9
Interim dividend for the year ended 30 September 2012 of 1.50p per share	**-**	-	4.4
	13.5	7.9	12.3

An interim dividend of 2.40p per share is proposed (2012: 1.50p per share), payable on 26 July 2013 with a record date of 5 July 2013. The amount expected to be absorbed by this dividend, based on the number of shares in issue at the balance sheet date is £7.2m (2012: £4.5m). The interim dividend will be recognised in the accounts when it is paid.

17. OWN SHARES

	31 Mar 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m
Treasury shares			
At 31 March 2013 and 1 October 2012	**39.5**	39.5	39.5
ESOP shares			
At 1 October 2012	**9.0**	8.9	8.9
Shares purchased	**0.5**	0.6	0.5
Shares subscribed for	**2.5**	1.7	2.1
Options exercised	**(2.5)**	(2.0)	(2.5)
At 31 March 2013	**9.5**	9.2	9.0
Total at 31 March 2013	**49.0**	48.7	48.5
Total at 1 October 2012	**48.5**	48.4	48.4
Number of shares held			
Treasury	**668,900**	668,900	668,900
ESOP	**3,057,337**	2,602,501	2,397,557
Balance at 31 March 2013	**3,726,237**	3,271,401	3,066,457

18. FINANCIAL LIABILITIES

	31 Mar 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m	30 Sept 2011 £m
Current liabilities				
Finance lease liability	**1.5**	1.2	1.4	1.2
Bank loans and overdrafts	**1.2**	0.5	0.6	0.6
	2.7	1.7	2.0	1.8
Non-current liabilities				
Asset backed loan notes	**7,994.5**	7,850.6	7,580.9	8,049.7
Corporate bond	**110.0**	110.3	110.0	112.0
Retail bonds	**59.4**	-	-	-
Finance lease liability	**9.4**	10.9	10.2	11.6
Bank loans and overdrafts	**1,353.8**	1,389.6	1,453.3	1,492.1
Derivative financial liabilities	**2.5**	5.9	4.6	9.1
	9,529.6	9,367.3	9,159.0	9,674.5

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 2012 remained in place throughout the period.

On 25 October 2012 a Group company, Paragon Mortgages (No. 17) PLC, issued £195.5m of sterling mortgage backed floating rate notes at par. £175.0m of the notes were rated AAA, £10.5m rated AA and £10.0m rated A. The average interest margin above LIBOR on the notes was 145.9% and the proceeds were used to pay down existing warehouse debt. The Group retained £4.5m of subordinated notes and also invested £6.0m in the first loss fund, bringing its total investment to £10.5m, or 5.25% of the issue amount. 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.

On 11 February 2013 the Group inaugurated a £1,000.0m Euro Medium Term Note Programme. The terms of issue for each tranche of notes are separately determined. These bonds are listed on the London Stock Exchange and have a fixed term, but are callable at the option of the Company. During the period the Group issued £60.0m of sterling bonds under this programme which are repayable in December 2020 and carry a fixed interest rate of 6.0% per annum, raising £59.4m of cash, net of issue costs.

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 2013 has been calculated on a year-to-date basis, using the latest actuarial valuation for IAS 19 purposes at 30 September 2012. 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 2013. In particular, over the period since 30 September 2012 actuarial valuation, the discount rate has reduced and expectations of long term inflation have increased, resulting in a significant increase in the value of the defined benefit obligation at 31 March 2013. The impact of the change in actuarial assumptions has been recognised as an actuarial loss in other comprehensive income.

The defined benefit plan assets have been updated to reflect their market value at 31 March 2013. In particular, over the period since 30 September 2012 the Plan assets have achieved results in excess of the assumptions made at 30 September 2012. The difference between the expected and actual return on assets has been recognised as an actuarial gain in other comprehensive income.

21. NET CASH FLOW FROM OPERATING ACTIVITIES

	Six months to 31 Mar 2013 £m	Six months to 31 Mar 2012 £m	Year to 30 Sept 2012 £m
Profit before tax	**49.1**	44.8	95.5
Non-cash items included in profit and other adjustments			
Depreciation of property, plant and equipment	**1.1**	1.0	2.1
Amortisation of intangible assets	**0.5**	0.5	1.0
Foreign exchange movements on borrowings	**338.2**	(198.6)	(344.9)
Other non-cash movements on borrowings	**3.9**	(0.6)	(0.7)
Impairment losses on loans to customers	**9.3**	13.3	24.1
Charge for share based remuneration	**1.4**	1.0	2.8
Loss on disposal of property, plant and equipment	**-**	-	-
Net (increase) / decrease in operating assets			
Loans to customers	**(14.1)**	(35.6)	8.2
Derivative financial instruments	**(340.3)**	201.3	351.4
Fair value of portfolio hedges	**0.7**	1.7	2.3
Other receivables	**(0.4)**	0.3	-
Net (decrease) / increase in operating liabilities			
Derivative financial instruments	**(2.1)**	(3.2)	(4.5)
Other liabilities	**0.6**	0.4	(3.0)
Cash generated by operations	**47.9**	26.3	134.3
Income taxes (paid)	**(10.0)**	(7.1)	(17.0)
Net cash flow generated by operating activities	**37.9**	19.2	117.3

22. NET CASH FLOW USED IN INVESTING ACTIVITIES

	Six months to 31 Mar 2013 £m	Six months to 31 Mar 2012 £m	Year to 30 Sept 2012 £m
Proceeds on disposal of property, plant and equipment	**-**	0.2	0.2
Purchases of property, plant and equipment	**(0.6)**	(1.2)	(1.6)
Purchases of intangible assets	**(0.4)**	(0.6)	(0.8)
Net cash (utilised) by investing activities	**(1.0)**	(1.6)	(2.2)

23. NET CASH FLOW FROM FINANCING ACTIVITIES

	Six months to 31 Mar 2013 £m	Six months to 31 Mar 2012 £m	Year to 30 Sept 2012 £m
Dividends paid (note 16)	**(13.5)**	(7.9)	(12.3)
Issue of asset backed floating rate notes	**193.1**	129.9	129.9
Repayment of asset backed floating rate notes	**(118.7)**	(131.0)	(254.9)
Issue of retail bonds	**59.4**	-	-
Capital element of finance lease payments	**(0.7)**	(0.7)	(1.2)
Movement on bank facilities	**(100.0)**	(103.3)	(43.1)
Purchase of shares (note 17)	**(0.5)**	(0.6)	(0.5)
Sale of shares	**-**	0.3	0.2
Net cash generated / (utilised) by financing activities	**19.1**	(113.3)	(181.9)

24. NET ASSET VALUE PER SHARE

	Note	31 Mar 2013	31 Mar 2012	30 Sept 2012	30 Sept 2011
Total equity (£m)		**819.9**	766.0	803.5	742.0
Outstanding issued shares (m)	14	**304.3**	301.4	301.8	299.7
Treasury shares (m)	17	**(0.7)**	(0.7)	(0.7)	(0.7)
Shares held by ESOP schemes (m)	17	**(3.0)**	(2.6)	(2.3)	(2.5)
		300.6	298.1	298.8	296.5
Net asset value per £1 ordinary share		**273p**	257p	269p	250p

25. RETURN ON EQUITY

Return on equity is defined by the Group by comparing the profit after tax for the year to the average of the opening and closing equity positions and is derived as follows:

	31 Mar 2013 £m	31 Mar 2012 £m	30 Sept 2012 £m	30 Sept 2011 £m
Profit for the period	**37.8**	33.7	72.2	59.6
Divided by				
Opening equity	**803.5**	742.0	742.0	692.0
Closing equity	**819.9**	766.0	803.5	742.0
Average equity	**811.7**	754.0	772.7	717.0
Return on equity (annualised)	**9.5%**	9.1%	9.3%	8.3%

26. RELATED PARTY TRANSACTIONS

In the six months ended 31 March 2013, the Group has continued the related party relationships described in note 59 on page 118 of the Annual Report and Accounts of the Group for the financial year ended 30 September 2012. 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 2013.

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 2013 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 26. 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 Conduct 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 2013 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 Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
21 May 2013

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 45 and 46 of the last annual report and accounts of the Company for the year ended 30 September 2012. 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 in turn increase the Group's costs and could result in losses on some of the Group's assets, or restrict the ability of the Group to develop in future.

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 and asset purchase 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 obtains much of its funding, have been subject to intervention by United Kingdom Government, European Union 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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