paragon

Half Yearly Financial Report

The Paragon Group of Companies PLC

Six months ended 31 March 2011

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Interim Management Report

The Group has made excellent progress during the six months ended 31 March 2011. The roll-out of new buy-to-let lending products across our distribution network has been followed by growth in lending volumes. With a good performance across the portfolios and strong earnings from acquired assets and third party loan administration the Group's financial performance was strong during the period.

Underlying profit, before movements on fair values for hedging instruments, was 29.3% higher at £38.4 million (note 8), compared with £29.7 million for the first half of 2010. Profit on ordinary activities before taxation was 34.8% higher at £39.5 million, compared with £29.3 million for the first half of 2010 after deducting exceptional items. Earnings per share were 36.6% higher at 9.7p (2010 H1: 7.1p).

In line with its progressive dividend policy, the Company will pay an interim dividend of 1.35p per share (H1 2010: 1.20p per share), a total of £4.0 million (H1 2010: £3.5 million), on 29 July 2011 to all shareholders on the register on 1 July 2011, an increase of 12.5% 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 8 and are summarised below.

	Six months to 31 Mar 2011 £m	Six months to 31 Mar 2010 £m
Underlying profit		
First Mortgages	30.6	22.9
Consumer Finance	7.8	6.8
	38.4	29.7

Net interest income decreased by 2.9% to £67.4 million from £69.4 million for the first half of 2010, improved margins partially offsetting the reduced size of the book, down by 3.7% from 31 March 2010 to 31 March 2011. Compared with the second half of 2010, net interest income increased by 5.3%, reflecting the impact of the resumption of new lending and of the acquired assets, in addition to improved margins.

Other operating income was £7.1 million for the period, compared with £8.0 million for the first half of 2010, and £6.5 million for the second half of that year. The reduction from the first half of 2010 reflects principally the lower levels of account fees and insurance commissions associated with reduced portfolio size over the period.

Operating expenses increased by 8.6% to £22.8 million from £21.0 million for the first half of 2010. The increase is primarily attributable to the recruitment of additional members of staff during the second half of 2010 to support the return to new lending, combined with an increased charge for share based remuneration. The cost:income ratio for the period was in line with our expectations 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 for impairment provisions of £13.3 million compares with £26.7 million for the first half of 2010, the reduction reflecting the lower level of arrears within the portfolio. As a percentage of loans to customers (note 12) the charge has reduced from 0.3% for the first half of 2010 to 0.2% and has remained stable compared to the second half of 2010. The loan books continue to be carefully managed and the credit performance remains in line with our expectations.

Free cash was £179.7 million at 31 March 2011 (2010 H1: £128.1 million) (note 14), the increase during the period principally reflecting strong cash generation by the Group's securitisation vehicle companies.

Yield curve movements during the period resulted in hedging instrument fair value net gains of £1.1 million (2010 H1: £0.9 million losses), 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 27.8%, compared with 28.0% in the first half of last year.

Profits after taxation of £28.5 million have been transferred to shareholders' funds, which totalled £715.2 million at 31 March 2011, representing a value of £2.43 per share (2010 H1: £2.25) (Note 25).

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 26.

REVIEW OF OPERATIONS

New Business Volumes

	Six months to 31 Mar 2011 £m	Six months to 31 Mar 2010 £m	Year to 30 Sept 2010 £m	**Six months to 31 Mar 2011 Number**	Six months to 31 Mar 2010 Number	Year to 30 Sept 2010 Number
First Mortgages						
Buy-to-let	32.3	9.1	14.6	227	174	254
Consumer Finance						
Secured lending	0.1	0.2	0.5	5	21	34
	32.4	9.3	15.1	232	195	288

First Mortgages

Following the Group's return to new lending in September 2010, application levels have increased steadily as the distribution base has been expanded. By 31 March 2011 the Group had re-established distribution arrangements with a number of major intermediary firms and mortgage networks and had widened its product range to optimise the value of those arrangements.

Given the start-up nature of the relaunch and the normal conversion cycles for mortgage loans, the portfolio of completed accounts builds over time. By 31 March 2011, £29.6 million of loans had been advanced under the Group's new product and a further £2.7 million of further advances had been made to existing borrowers. By 20 May 2011 new lending completions had increased to £50.2 million and the pipeline of new business stood at £94.7 million. During the period the Group enjoyed a steady improvement in the volume of applications and the credit quality of the new lending business written in the period has been excellent, with an average loan to value ratio of 68.9%.

Whilst the housing market generally has remained subdued in recent months, the private rented sector has seen a sustained upturn in tenant demand. The Royal Institution of Chartered Surveyors, in their most recent quarterly review, reported that strong tenant demand had resulted in rents rising at the fastest pace in the history of their survey. Reflecting this, buy-to-let mortgage growth has been higher than for mortgages generally. According to the Council of Mortgage Lenders, lending in the buy-to-let market increased in 2010 to £10.4 billion from £8.5 billion in 2009 and in the first quarter of 2011 to £2.9 billion compared to £2.1 billion in the same period a year ago, an increase of 38.1%.

The performance of the Group's buy-to-let portfolio continues to be exemplary, with the combination of strong customer retention, low and reducing arrears and low losses continuing to deliver strong revenues from the first mortgage business. The buy-to-let portfolio reduced to £8,242.5 million at 31 March 2011 from £8,323.9 million at 30 September 2010. This low level of redemption of 2.2% (annualised) compares with 2.7% for the corresponding period last year and continues to reflect the comparatively high cost of alternative offerings by other lenders during the period.

The percentage of buy-to-let loans three months or more in arrears has continued to fall, standing at 0.75%, including acquired loans and receivership cases, at 31 March 2011 (31 March 2010: 1.17%, 30 September 2010: 0.83%) and remains considerably better than the comparable figure for the buy-to-let industry of 2.24% at the same date, as reported by the Council of Mortgage Lenders (31 March 2010: 2.71%, 30 September 2010: 2.45%). The impairment charge attributable to First Mortgages reduced to £5.4 million for the period from £14.2 million for the corresponding period in 2010, the reduction reflecting an improved arrears performance over the period.

The number of properties in receivership was 1,431 at 31 March 2011 (31 March 2010: 1,491). At the end of March 2011, 93.5% of the properties available for letting in the receiver of rent portfolio were let (30 September 2010: 93.3%, 31 March 2010: 93.5%) and yielded rental income which comfortably covered the mortgage payments.

The owner-occupied book reduced to £137.8 million from £164.9 million during the twelve months ended 31 March 2011 and performed in line with our expectations.

Consumer Finance

At 31 March 2011, the total loans outstanding on the consumer finance books were £393.7 million, compared with £435.6 million at 30 September 2010. The shortage of alternative offerings in the market resulted in the level of redemptions remaining relatively low during the first half of the financial year. Lending during the period has been limited to a small number of further advances to existing customers.

Arrears of two months and over on the secured consumer finance book increased to 11.07% of the book at 31 March 2011 from 9.36% at 30 September 2010, continuing to compare favourably with the 19.3% arrears recorded for the industry at that date by the Finance & Leasing Association (30 September 2010: 18.6%).

The residual unsecured loan, retail finance and car finance portfolios, totalling £31.8 million at 31 March 2011 (31 March 2010: £61.1 million), performed satisfactorily and in line with expectations.

OTHER INITIATIVES

The specific areas of strategic focus for the generation of new sources of income to enhance shareholder value are the acquisition of loan portfolios through Idem Capital, the servicing of third party loan portfolios through Moorgate Loan Servicing and Arden Credit Management, and the expansion of products and services for existing customers. Good progress has continued to be made in these areas, which contributed £3.5 million to operating profit for the period (2010 H1: £2.4 million).

Idem Capital

The loan portfolios acquired during 2009 and 2010 have performed well during the period, the Group having a long and established track record in acquiring loan portfolios and successfully transferring the loan servicing in-house and managing the books effectively thereafter. A further portfolio investment was made in May, taking the total investment to date in mortgage and consumer finance portfolios to £30.1 million, in addition to the amount of £27.2 million invested in the Group's debt, as reported last year. We continue to pursue opportunities in this area, and are currently reviewing a number of further potential portfolio investment and servicing opportunities.

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 collection 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 May, Moorgate Loan Servicing has agreed to assume the servicing of approximately 50,000 additional loan accounts on behalf of a third party. We are currently examining other potential servicing arrangements and continue to seek further opportunities in this area.

FUNDING

The Group funds its mortgage originations through a £200 million revolving warehouse provided by Macquarie Bank. The Group's intention is to use the facility to warehouse loans prior to arranging term funding in the securitisation markets. Despite recent political and economic uncertainties, the residential mortgage backed securities market has continued to recover, with increased levels of new issuance from market participants including small and medium sized institutions, an increase in the number of issuers and a gradual tightening of margins. These augur well for the Group's return to the securitisation markets in due course.

REGULATION

The regulatory environment is developing rapidly with a further consultation of the FSA's Mortgage Market Review expected during the Summer, including the provision of enhanced prudential supervision of non-bank lenders. Certain of the Group's operations are already authorised by the FSA in respect of residential mortgage and insurance activity and we expect the Group to be well placed to comply with any changes in the regulatory framework.

The European Commission has recently published its proposed directive on credit agreements relating to residential property, which proposes additional disclosure and underwriting requirements for all mortgage lending to consumers secured on residential property. It is unclear at this stage whether regulation will be extended to buy-to-let lending and we are engaged with the authorities on their proposal.

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

BOARD OF DIRECTORS

On 11 February 2011 we were pleased to announce the appointment of Peter Hartill to the Board as a non-executive director. Mr Hartill, a Chartered Accountant, is currently Non-Executive Chairman of Deeley Group and a non-executive director of Scott Bader Limited and the Criminal Injuries Compensation Authority. Previously, he spent forty years with Deloitte, becoming a senior audit partner and a business advisor with experience across a wide range of industries and business issues. Specifically he has considerable experience in capital raising, acquisitions and disposals, risk control and corporate governance in the financial services sector.

CONCLUSION

The Group's performance continues to be strong, with excellent profit growth, credit performance and cash generation during the first half of the financial year. New lending has progressed well, with a strong application flow building to a meaningful pipeline of business. Strong growth in lending is expected in the second half of the year. Further progress has been achieved in servicing and investing in loan portfolios, and additional opportunities are under review which seek to take advantage of the Group's recognised expertise in these areas. We look forward to building on the success of the Group's return to new lending as the foundation 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
24 May 2011

Condensed Financial Statements

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 March 2011 (Unaudited)

	Note	**Six months to 31 Mar 2011 £m**	Six months to 31 Mar 2010 £m	Year to 30 Sept 2010 £m
Interest receivable		127.8	146.2	275.6
Interest payable and similar charges		(60.4)	(76.8)	(142.2)
Net interest income		67.4	69.4	133.4
Other operating income	4	7.1	8.0	14.5
Total operating income		74.5	77.4	147.9
Operating expenses		(22.8)	(21.0)	(42.6)
Provisions for losses		(13.3)	(26.7)	(39.2)
Operating profit before gains and fair value items		38.4	29.7	66.1
Gains on debt repurchase	6	-	0.5	5.7
Fair value net gains / (losses)	7	1.1	(0.9)	-
Operating profit being profit on ordinary activities before taxation		39.5	29.3	71.8
Tax charge on profit on ordinary activities	9	(11.0)	(8.2)	(17.9)
Profit on ordinary activities after taxation		28.5	21.1	53.9

	Note	**Six months to 31 Mar 2011**	Six months to 31 Mar 2010	Year to 30 Sept 2010
Dividend - Rate per share for the period	17	1.35p	1.20p	3.60p
Basic earnings per share	10	9.7p	7.1p	18.3p
Diluted earnings per share	10	9.3p	7.0p	17.8p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March 2011 (Unaudited)

	Note	**Six months to 31 Mar 2011**	Six months to 31 Mar 2010	Year to 30 Sept 2010
Profit for the period		28.5	21.1	53.9
Other comprehensive income				
Actuarial gain / (loss) on pension scheme	21	1.6	(1.3)	(5.7)
Cash flow hedge gains taken to equity		0.1	0.3	0.3
Tax on items taken directly to equity		(0.3)	0.3	1.3
Other comprehensive income for the period net of tax		1.4	(0.7)	(4.1)
Total comprehensive income for the period		29.9	20.4	49.8

CONSOLIDATED BALANCE SHEET

31 March 2011 (Unaudited)

	Note	**31 Mar 2011**	31 Mar 2010 (restated)	30 Sept 2010 (restated)	30 Sept 2009 (restated)
		£m	£m	£m	£m
Assets employed					
Non-current assets					
Intangible assets	11	9.4	9.4	9.2	9.6
Property, plant and equipment		11.2	14.1	12.2	15.5
Financial assets	12	9,919.9	10,544.0	10,080.1	10,640.8
Deferred tax asset		-	2.3	1.5	2.8
		9,940.5	10,569.8	10,103.0	10,668.7
Current assets					
Current tax assets		-	-	-	1.7
Other receivables		5.4	6.2	5.9	5.5
Cash and cash equivalents	14	556.0	514.7	536.7	480.4
		561.4	520.9	542.6	487.6
Total assets		10,501.9	11,090.7	10,645.6	11,156.3
Financed by					
Equity shareholders' funds					
Called-up share capital	15	299.7	299.4	299.4	299.1
Reserves	16	469.0	420.6	445.8	408.1
Share capital and reserves		768.7	720.0	745.2	707.2
Own shares	18	(53.5)	(55.4)	(53.2)	(56.7)
Total equity		715.2	664.6	692.0	650.5
Current liabilities					
Financial liabilities	19	2.0	1.3	1.2	1.3
Current tax liabilities		14.0	16.4	16.2	-
Provisions		-	0.1	-	0.5
Other liabilities		35.2	29.7	32.4	30.4
		51.2	47.5	49.8	32.2
Non-current liabilities					
Financial liabilities	19	9,717.4	10,364.3	9,885.7	10,459.6
Retirement benefit obligations	21	14.8	12.4	16.5	11.5
Deferred tax		1.9	-	-	-
Other liabilities		1.4	1.9	1.6	2.5
		9,735.5	10,378.6	9,903.8	10,473.6
Total liabilities		9,786.7	10,426.1	9,953.6	10,505.8
		10,501.9	11,090.7	10,645.6	11,156.3

Comparative amounts are restated as described in note 2.

The condensed financial statements for the half year were approved by the Board of Directors on 24 May 2011.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 March 2011 (Unaudited)

	Note	**Six months to 31 Mar 2011 £m**	Six months to 31 Mar 2010 (restated) £m	Year to 30 Sept 2010 (restated) £m
Net cash flow generated by operating activities	22	171.6	241.3	470.5
Net cash (utilised) / generated by investing activities	23	(0.6)	(0.2)	0.3
Net cash (utilised) by financing activities	24	(152.4)	(206.8)	(414.3)
Net increase in cash and cash equivalents		18.6	34.3	56.5
Opening cash and cash equivalents		536.6	480.1	480.1
Closing cash and cash equivalents		555.2	514.4	536.6
Represented by balances within				
Cash and cash equivalents	14	556.0	514.7	536.7
Financial liabilities		(0.8)	(0.3)	(0.1)
		555.2	514.4	536.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 March 2011 (Unaudited)

	Note	**Six months to 31 Mar 2011 £m**	Six months to 31 Mar 2010 (restated) £m	Year to 30 Sept 2010 (restated) £m
Total comprehensive income for the period		29.9	20.4	49.8
Dividends paid	17	(7.1)	(6.5)	(10.0)
Shares issued		0.3	0.3	-
Net movement in own shares		(0.3)	1.3	3.5
Deficit on transactions in own shares		(1.2)	(1.6)	(3.5)
Charge for share based remuneration		0.9	0.4	1.4
Tax on share based remuneration		0.7	(0.2)	0.3
Total movements in equity in the period		23.2	14.1	41.5
Opening equity (restated)		692.0	650.5	650.5
Closing equity		715.2	664.6	692.0

SELECTED NOTES TO THE ACCOUNTS

For the six months ended 31 March 2011 (Unaudited)

1. GENERAL INFORMATION

The condensed financial statements for the six months ended 31 March 2011 and for the six months ended 31 March 2010 have not been audited.

The figures shown above for the years ended 30 September 2010 and 30 September 2009 are not statutory accounts. A copy of the statutory accounts for each year has been delivered to the Registrar of Companies, contained an unqualified audit report 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 2010, except for the retrospective adoption of the amendment to IAS 17 - 'Leases' in respect of accounting for leases of land included in the IASB 'Improvements to IFRSs' issued in April 2009, as required by the Standard.

As a result of this change, one lease of land which has been previously accounted for as an operating lease is now accounted for as a finance lease. The changes in the financial statement line items as a result of the change in policy are as follows:

	31 Mar 2011 **£m**	31 Mar 2010 £m	30 Sept 2010 £m	30 Sept 2009 £m
Balance sheet				
Fixed assets	1.7	1.9	1.8	2.0
Finance lease liability				
Current	(0.2)	(0.2)	(0.2)	(0.2)
Non-current	(1.8)	(2.0)	(1.9)	(2.1)
Equity	(0.3)	(0.3)	(0.3)	(0.3)
Cash flow statement				
Net cash generated by operating activities	0.2	0.1	0.2	
Net cash utilised by financing activities	(0.2)	(0.1)	(0.2)	
Net increase in cash and cash equivalents	-	-	-	

The change in policy caused no change in the amounts reported in the income statement.

These accounting policies are expected to be used in the preparation of the financial statements of the Group for the year ending 30 September 2011.

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 4 to 7. 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 26.

Note 5 to the accounts for the year ended 30 September 2010 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. Critical accounting estimates affecting the results and financial position disclosed in this annual report are discussed in note 4. The position and policies described in these notes remain materially unchanged to the date of this half-yearly report, except as described in note 20.

Substantially all of the Group's remaining 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 reporting purposes the Group is organised into two major operating divisions, First Mortgages, which includes the buy-to-let and owner-occupied mortgage assets and other income derived from first charge mortgages; and Consumer Finance, which includes second charge loans and the residual car and retail finance and unsecured loan books, and also income from third party consumer loan servicing. These divisions are the basis on which the Group reports primary segmental information. 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 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
Gains on debt repurchases	-	-	-
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

Six months ended 31 March 2010

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	121.5	24.7	146.2
Interest payable	(72.5)	(4.3)	(76.8)
Net interest income	49.0	20.4	69.4
Other operating income	3.8	4.2	8.0
Total operating income	52.8	24.6	77.4
Operating expenses	(15.7)	(5.3)	(21.0)
Provisions for losses	(14.2)	(12.5)	(26.7)
	22.9	6.8	29.7
Gains on debt repurchases	0.5	-	0.5
Fair value net losses	(0.9)	-	(0.9)
Operating profit	22.5	6.8	29.3
Tax charge			(8.2)
Profit after taxation			21.1

Year ended 30 September 2010

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	228.4	47.2	275.6
Interest payable	(133.6)	(8.6)	(142.2)
Net interest income	94.8	38.6	133.4
Other operating income	6.5	8.0	14.5
Total operating income	101.3	46.6	147.9
Operating expenses	(32.1)	(10.5)	(42.6)
Provisions for losses	(18.6)	(20.6)	(39.2)
	50.6	15.5	66.1
Gains on debt repurchases	5.7	-	5.7
Fair value net (losses) / gains	(0.2)	0.2	-
Operating profit	56.1	15.7	71.8
Tax charge			(17.9)
Profit after taxation			53.9

The assets of the segments listed above are:

	31 Mar 2011 £m	31 Mar 2010 (restated) £m	30 Sept 2010 (restated) £m	30 Sept 2009 (restated) £m
First Mortgages	9,934.3	10,459.2	10,083.0	10,445.3
Consumer Loans	567.6	631.5	562.6	711.0
Total assets	10,501.9	11,090.7	10,645.6	11,156.3

4. OTHER OPERATING INCOME

	31 Mar 2011 £m	31 Mar 2010 £m	30 Sept 2010 £m
Loan account fee income	3.1	3.5	6.5
Insurance income	0.5	0.8	0.7
Third party servicing	2.7	2.7	5.6
Other income	0.8	1.0	1.7
	7.1	8.0	14.5

5. COST:INCOME RATIO

Cost:income ratio is derived as follows:

	31 Mar 2011	31 Mar 2010	30 Sept 2010
Operating expenses (£m)	22.8	21.0	42.6
Total operating income (£m)	74.5	77.4	147.9
Cost ÷ Income	30.6%	27.1%	28.8%

6. GAINS ON DEBT REPURCHASE

	31 Mar 2011 £m	31 Mar 2010 £m	30 Sept 2010 £m
On asset backed loan notes	-	0.5	5.7
	-	0.5	5.7

These gains have arisen on the repurchase, by the Group, on the open market of its debt securities at less than their carrying value.

The cash consideration paid on these purchases, including transaction costs of £nil (year ended 30 September 2010 £nil) was:

	31 Mar 2011 £m	31 Mar 2010 £m	30 Sept 2010 £m
On asset backed loan notes	-	1.0	8.3
	-	1.0	8.3

7. FAIR VALUE NET GAINS / (LOSSES)

The fair value 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.

8. UNDERLYING PROFIT

Underlying profit is determined by excluding from the operating result certain costs of a one off nature which do not reflect the underlying business performance of the Group, gains on the repurchase of debt which result from the illiquidity of the credit markets rather than the fair value of the security and fair value accounting adjustments arising from the Group's hedging arrangements.

		31 Mar 2011 £m	31 Mar 2010 £m	30 Sept 2010 £m
First mortgages				
Profit before tax for the period (note 3)		31.8	22.5	56.1
Less:	Gain on debt repurchase	-	(0.5)	(5.7)
	Fair value (gains) / losses	(1.2)	0.9	0.2
		30.6	22.9	50.6
Consumer Finance				
Profit before tax for the period (note 3)		7.7	6.8	15.7
Less:	Gain on debt repurchase	-	-	-
	Fair value losses /(gains)	0.1	-	(0.2)
		7.8	6.8	15.5
Total				
Profit before tax for the period		39.5	29.3	71.8
Less:	Gain on debt repurchase	-	(0.5)	(5.7)
	Fair value (gains) / losses	(1.1)	0.9	-
Underlying profit before tax		38.4	29.7	66.1

9. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

Income tax for the six months ended 31 March 2011 is charged at 27.8% (six months ended 31 March 2010: 28.0%, year ended 30 September 2010: 24.9%), 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.

10. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

		31 Mar 2011	31 Mar 2010	30 Sept 2010
Profit for the period (£m)		28.5	21.1	53.9
Basic weighted average number of ordinary shares ranking for dividend during the period (million)		295.3	295.1	295.3
Dilutive effect of the weighted average number of share options and incentive plans in issue during the period (million)		9.5	5.0	8.3
Diluted weighted average number of ordinary shares ranking for dividend during the period (million)		304.8	300.1	303.6
Earnings per ordinary share	- basic	9.7p	7.1p	18.3p
	- diluted	9.3p	7.0p	17.8p

11. INTANGIBLE ASSETS

Intangible assets at net book value comprise:

	31 Mar 2011 £m	31 Mar 2010 £m	30 Sept 2010 £m	30 Sept 2009 £m
Goodwill	1.6	1.6	1.6	1.6
Computer software	0.9	0.4	0.4	0.3
Other intangibles	6.9	7.4	7.2	7.7
Total assets	9.4	9.4	9.2	9.6

12. FINANCIAL ASSETS

	Note	**31 Mar 2011 £m**	31 Mar 2010 £m	30 Sept 2010 £m	30 Sept 2009 £m
First mortgage loans		8,380.3	8,622.9	8,475.6	8,764.3
Consumer loans		393.7	487.7	435.6	550.0
Loans to customers		8,774.0	9,110.6	8,911.2	9,314.3
Fair value adjustments from portfolio hedging		4.2	16.7	8.6	39.0
Derivative financial assets	13	1,141.7	1,416.7	1,160.3	1,287.5
Total assets		9,919.9	10,544.0	10,080.1	10,640.8

13. DERIVATIVE FINANCIAL ASSETS AND LIABILITES

	Note	**31 Mar 2011 £m**	31 Mar 2010 £m	30 Sept 2010 £m	30 Sept 2009 £m
Derivative financial assets	12	1,141.7	1,416.7	1,160.3	1,287.5
Derivative financial liabilities	19	(9.3)	(31.0)	(17.3)	(56.6)
		1,132.4	1,385.7	1,143.0	1,230.9
Of which:					
Foreign exchange basis swaps		1,133.8	1,402.9	1,148.7	1,273.5
Other derivatives		(1.4)	(17.2)	(5.7)	(42.6)
		1,132.4	1,385.7	1,143.0	1,230.9

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.

14. CASH AND CASH EQUIVALENTS

Cash received in respect of loan assets is not immediately available for Group purposes, 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 2011 £m	31 Mar 2010 £m	30 Sept 2010 £m	30 Sept 2009 £m
Free cash	179.7	128.1	147.8	84.0
Securitisation cash	374.5	384.9	387.2	394.7
ESOP cash	1.8	1.7	1.7	1.7
	556.0	514.7	536.7	480.4

15. CALLED-UP SHARE CAPITAL

Movements in the issued share capital in the period were:

	Six months to 31 Mar 2011 Number	Six months to 31 Mar 2010 Number	Year to 30 Sept 2010 Number
Ordinary shares of £1 each			
At 1 October 2010	299,454,078	299,159,605	299,159,605
Shares issued	291,367	294,473	294,473
	299,745,445	299,454,078	299,454,078

16. RESERVES

	31 Mar 2011 £m	31 Mar 2010 (restated) £m	30 Sept 2010 (restated) £m	30 Sept 2009 (restated) £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	1.5	1.4	1.4	1.2
Profit and loss account	473.6	425.3	450.5	413.0
	469.0	420.6	445.8	408.1

17. EQUITY DIVIDEND

Amounts recognised as distributions to equity shareholders in the period:

	31 Mar 2011 £m	31 Mar 2010 £m	30 Sept 2010 £m
Final dividend for the year ended 30 September 2010 of 2.4p per share	7.1	-	-
Final dividend for the year ended 30 September 2009 of 2.2p per share	-	6.5	6.5
Interim dividend for the year ended 30 September 2010 of 1.2p per share	-	-	3.5
	7.1	6.5	10.0

An interim dividend of 1.35p per share is proposed (2010: 1.20p per share), payable on 29 July 2011 with a record date of 1 July 2011. The amount expected to be absorbed by this dividend, based on the number of shares in issue at the balance sheet date is £4.0m (2010: £3.5m). The interim dividend will be recognised in the accounts when it is paid.

18. OWN SHARES

	31 Mar 2011 £m	31 Mar 2010 £m	30 Sept 2010 £m
Treasury shares			
At 31 March 2011 and 1 October 2010	39.5	39.5	39.5
ESOP shares			
At 1 October 2010	13.7	17.2	17.2
Shares purchased	1.2	-	-
Shares allotted	0.3	0.3	0.3
Options exercised	(1.2)	(1.6)	(3.8)
At 31 March 2011	14.0	15.9	13.7
Total at 31 March 2011	53.5	55.4	53.2
Total at 1 October 2010	53.2	56.7	56.7
Number of shares held			
Treasury	668,900	668,900	668,900
ESOP	4,206,184	3,563,280	3,366,361
Balance at 31 March 2011	4,875,084	4,232,180	4,035,261

19. FINANCIAL LIABILITIES

	31 Mar 2011	31 Mar 2010 (restated)	30 Sept 2010 (restated)	30 Sept 2009 (restated)
	£m	£m	£m	£m
Current liabilities				
Finance lease liability	1.2	1.0	1.1	1.0
Bank loans and overdrafts	0.8	0.3	0.1	0.3
	2.0	1.3	1.2	1.3
Non-current liabilities				
Asset backed loan notes	8,168.7	8,777.8	8,336.2	8,819.2
Corporate bond	113.6	117.0	115.8	116.8
Finance lease liability	12.2	13.4	12.8	13.9
Bank loans and overdrafts	1,413.6	1,425.1	1,403.6	1,453.1
Derivative financial liabilities	9.3	31.0	17.3	56.6
	9,717.4	10,364.3	9,885.7	10,459.6

Finance lease liabilities have been restated as described in note 2.

Details of changes in the Group's borrowings since the year end are given in note 20 below. Further details of derivative financial instruments are given in note 13.

20. BORROWINGS

All borrowings described in the Group Accounts for the year ended 30 September 2010 remained in place throughout the period.

During the period the Group made its first drawings on the warehouse facility made available to Paragon Fourth Funding Limited, a 100% subsidiary of the Group, to fund new mortgage advances. At 31 March 2011 £29.0m had been drawn under this facility and the carrying value of this drawing in the accounts was £26.4m. As with the Group's other securitisation borrowings, the new warehouse 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 activation of the new facility does not impact on the liquidity risk of the Group.

Repayments made in respect of the Group's borrowings are shown in note 24 and information on repurchases of the Group's debt is given in note 6.

21. RETIREMENT BENEFIT OBLIGATIONS

The defined benefit obligation at 31 March 2011 has been calculated on a year-to-date basis, using the latest actuarial valuation for IAS 19 purposes at 30 September 2010. 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 2011 and to the derivation methods used to determine some of those assumptions.

The defined benefit plan assets have been updated to reflect their market value at 31 March 2011. Differences between the expected and actual return on assets have been recognised as an actuarial loss in other comprehensive income.

22. NET CASH FLOW FROM OPERATING ACTIVITIES

	Six months to 31 Mar 2011 £m	Six months to 31 Mar 2010 (restated) £m	Year to 30 Sept 2010 (restated) £m
Profit before tax	39.5	29.3	71.8
Non-cash items included in profit and other adjustments			
Depreciation of property, plant and equipment	1.0	1.4	2.5
Amortisation of intangible assets	0.4	0.3	0.7
Profit on repurchase of debt	-	(0.5)	(5.7)
Foreign exchange movements on borrowings	(14.9)	129.3	(124.8)
Other non-cash movements on borrowings	(1.1)	2.1	0.6
Impairment losses on loans to customers	13.3	26.7	39.2
Charge for share based remuneration	0.9	0.4	1.4
Loss on disposal of property, plant and equipment	-	0.1	0.2
Net decrease / (increase) in operating assets			
Loans to customers	123.9	177.0	363.9
Derivative financial instruments	18.6	(129.2)	127.2
Fair value of portfolio hedges	4.4	22.3	30.4
Other receivables	0.5	(0.7)	(0.4)
Net (decrease) / increase in operating liabilities			
Derivative financial instruments	(8.0)	(25.6)	(39.3)
Other liabilities	2.5	(2.1)	(0.1)
Cash generated by operations	181.0	230.8	467.6
Income taxes (paid) / received	(9.4)	10.5	2.9
Net cash flow generated by operating activities	171.6	241.3	470.5

23. NET CASH FLOW USED IN INVESTING ACTIVITIES

	Six months to 31 Mar 2011 £m	Six months to 31 Mar 2010 £m	Year to 30 Sept 2010 £m
Proceeds on disposal of property, plant and equipment	0.6	0.8	1.6
Purchases of property, plant and equipment	(0.6)	(0.9)	(1.0)
Purchases of intangible assets	(0.6)	(0.1)	(0.3)
Net cash (utilised) / generated by investing activities	(0.6)	(0.2)	0.3

24. NET CASH FLOW FROM FINANCING ACTIVITIES

	Six months to 31 Mar 2011	Six months to 31 Mar 2010 (restated)	Year to 30 Sept 2010 (restated)
	£m	£m	£m
Dividends paid (note 17)	(7.1)	(6.5)	(10.0)
Repayment of asset backed floating rate notes	(153.0)	(170.8)	(345.5)
Repurchase of debt (note 6)	-	(1.0)	(8.3)
Capital element of finance lease payments	(0.5)	(0.5)	(1.0)
Movement on bank facilities	9.4	(28.0)	(49.5)
Purchase of shares (note 18)	(1.2)	-	-
Net cash (utilised) by financing activities	(152.4)	(206.8)	(414.3)

25. NET ASSET VALUE PER SHARE

	Note	**31 Mar 2011**	31 Mar 2010 (restated)	30 Sept 2010 (restated)	30 Sept 2009 (restated)
		£m	£m	£m	£m
Total equity (£m)		715.2	664.6	692.0	650.5
Outstanding issued shares (m)	15	299.8	299.5	299.5	299.2
Treasury shares (m)	18	(0.7)	(0.7)	(0.7)	(0.7)
Shares held by ESOP schemes (m)	18	(4.2)	(3.6)	(3.4)	(3.4)
		294.9	295.2	295.4	295.1
Net asset value per £1 ordinary share		243p	225p	234p	221p

26. RELATED PARTY TRANSACTIONS

In the six months ended 31 March 2011, the Group has continued the related party relationships described in note 64 on page 109 of the annual report and accounts of the Group for the financial year ended 30 September 2010. 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 2011.

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 2011 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 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 2011 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 Auditors
Birmingham, United Kingdom
24 May 2011

Future Prospects

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 40 and 41 of the last annual report and accounts of the Company for the year ended 30 September 2010. 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, 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 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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GRP5347 (06/2011)