Financial highlights

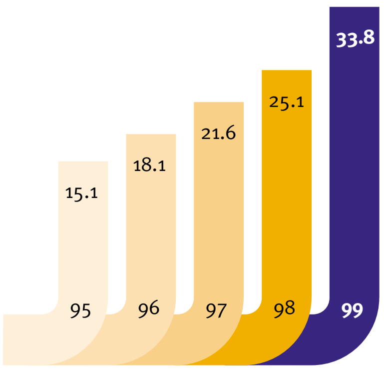
Five year record

		1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Profit before taxation		**33.8**	25.1	21.6	18.1	15.1
Profit after taxation		**30.3**	23.9	21.6	18.1	15.1
Assets under management		**1,597.7**	1,470.6	1,151.1	1,214.8	1,383.8
Shareholders' funds		**113.5**	86.8	63.0	49.0	39.6
		1999	1998	1997	1996	1995
Earnings per share	- basic	**26.1p**	22.4p	23.4p	19.7p	21.4p
	- diluted	**25.8p**	22.1p	23.3p	19.1p	21.0p
Dividend per ordinary share		**3.4p**	3.0p	2.7p	2.4p	1.0p

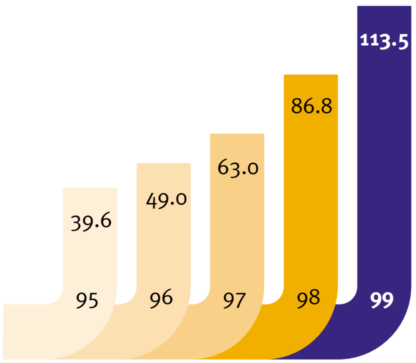
The basic and diluted earnings per share figures for 1998 and prior years have been adjusted following the implementation of Financial Reporting Standard 14 - 'Earnings Per Share'.

The earnings per share for 1997 and prior years have been adjusted to reflect the rights issue during 1998.

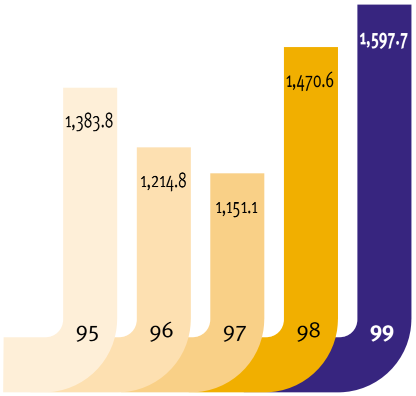
Pre-tax profits - £m



Shareholders' funds - £m



Assets under management - £m



finance
for
people
by
people

paragon

We have achieved a substantial increase in profits and strong growth in assets in all of our business areas

Chairman's statement

Your Company has made significant progress in the past year, building on the business foundations laid in previous years. We have achieved a substantial increase in profits, strong growth in assets in all of our business areas, and expansion of our activities in consumer finance with the launch of a secured consumer loan product.

Profit before tax for the year ended 30 September 1999 was £33.8 million (1998: £25.1 million) after taking into account a £2.5m profit on the sale of property, an increase of 34.7% over the previous year. After a corporation tax charge of £3.5 million, the profit after tax is £30.3 million (1998: £23.9 million). Earnings per share were 26.1p, compared to 22.4p (adjusted for FRS 14) for the previous year.

Reflecting these strong results, the Board is pleased to propose, subject to approval at the Annual General Meeting, an increased final dividend of 1.9p per share which, when added to the interim dividend of 1.5p, gives a total dividend of 3.4p per share for the year, an increase of 13% on last year's dividend of 3p.

FIRST MORTGAGES

The building of a mortgage book of high quality, profitable loans is an important element in our plans for future sustained profitability and I am delighted at the progress that has been made.

The volume of first mortgage loans during the year increased by 11.7% to £259.9m (1998: £232.6m). Aggregate loans

Jonathan Perry, Executive Chairman with Ethna Finnegan, a member of the Structured Finance team.

outstanding at 30 September 1999 on the Paragon Mortgages book amounted to £632.9m, having eclipsed the amount outstanding on the old NHL mortgage portfolio during the year. At 30 September 1999, balances on the NHL portfolio were £512.5m, the rate of natural redemptions having been 21% in the year. Whilst arrears remain high in the portfolio, efficient collections activity has ensured that cash receipts from customers in arrears have improved in the year to 96% of the amounts contractually due.

During the year, the product focus of Paragon Mortgages has remained firmly on niche markets and, as in the previous year, loans to the private rented sector were the largest contributors to volumes. In the spring, we announced a number of changes to our products, including the withdrawal of all new borrower incentives. These measures have further enhanced the profitability of our mortgage originations without having a negative impact on business volumes.

I commented last year on the very relaxed underwriting terms being offered by a number of our competitors and I reported that we saw no virtue in relaxing our credit quality merely to achieve low margin, low quality business. Our strategy of maintaining high credit and underwriting standards has been reflected in Paragon Mortgages enjoying very low arrears, significantly below the industry average.

During the year, Paragon Mortgages has built further on its reputation for high standards of customer service. This is monitored by the completion of a quarterly customer survey, which has given very encouraging feedback on the level of our service both relative to previous periods and also relative to our competitors. Notwithstanding this, we continually focus on improvements to achieve even higher levels of customer satisfaction. This approach has undoubtedly been a factor in improvements that we have seen in the conversion rate of applications to advances this year.

There has been considerable public debate in recent months in regard to the need for statutory regulation for the mortgage industry. It now seems likely that this will be introduced by statute at some stage in the future and we are confident that any regulation of the mortgage market will be accommodated by Paragon Mortgages with relative ease in view of the high standards we adopt. As a member of the Council of Mortgage Lenders (CML), we fully support the CML's proposal to HM Treasury that the industry should fall within the regulatory framework of the FSA.

'Our new businesses draw on the core skills of the Group'

Worthy of particular note is the timeshare lending, where monthly advances during the last quarter of the year consistently exceeded £2 million

CAR FINANCE

This division has continued the strong growth reported at the half year, with completions of £63.8m for the year, an increase of 78.7% on last year's level of £35.7m. During the year particular emphasis has been placed on the roll-out of new products for the dealer market, maintenance of margins by focusing our approach to dealers on selected elements of their business, customer service and on a steady expansion of the distribution base.

By 30 September 1999 the number of dealers signed up by Paragon Car Finance had increased to 1,300, from less than 900 a year before. Dealer business quality is monitored carefully to ensure that our dealer profile is consistent with the high quality of business on which the division has been established. In addition to expanding the dealer base, considerable emphasis is being placed on increasing the productivity of the existing dealer network.

In achieving this, a high standard of customer service is essential. In this regard, it is particularly pleasing to report that Paragon Car Finance was nominated for the ITM Car Finance Company of the Year from a poll of 1,000 franchised dealers.

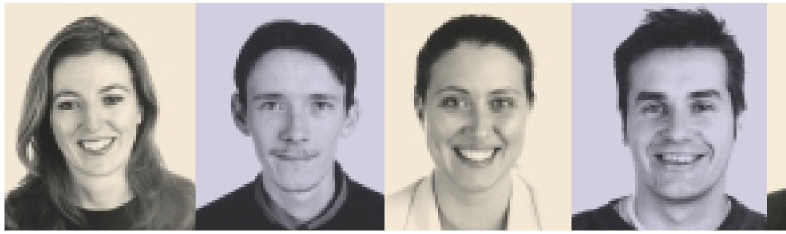
PERSONAL FINANCE

A total of £95.6 million was advanced by Paragon Personal Finance during the year, compared with £54.3 million (inclusive of originations by Universal Credit (UCL) following its acquisition in March 1998) in the previous year. Completions in the second half year of £57.7 million represent a very good recovery in lending volumes from the temporary impact of the underwriting changes on which I commented in my interim report.

Worthy of particular note is the timeshare lending, where monthly advances during the last quarter of the year consistently exceeded £2 million. The increased volume has come not only from our established connections producing more business but also from a more active programme to encourage other timeshare operators to introduce business to Paragon.

The volume of affinity sales has increased steadily and we have improved the quality of this business through underwriting changes. During the year relationships with seven new affinity partners were established. This is an area with exciting opportunities for Paragon.

A secured loan product was launched towards the end of the year, initially piloted through one introducer and early indications of volumes and quality of lending in this area are encouraging. Expansion of our activities in this area will be supported by a number of introducers with whom we already have strong relationships through our unsecured loan products, and a roll-out programme has commenced.



Responsibility for the administration and collection of the loan assets acquired with UCL was transferred away from UCL in October 1998 to Paragon's operations division in Solihull, which is experienced in collecting on various classes of personal financial obligations. During the year ended 30 September 1999, there has been significant improvement in the cash collected from the arrears accounts in this portfolio and it is expected that this trend will continue going forward.

The sales and underwriting side of this business continue to operate from UCL's old offices in Victoria although we intend to transfer all remaining parts of the business to Solihull within the next eighteen months.

CONCLUSION

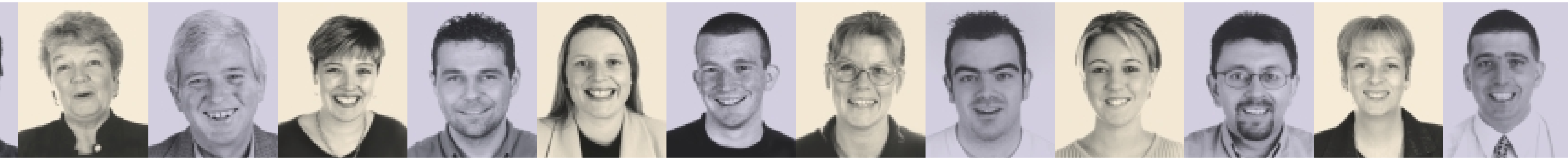
By virtue of the progress which has been made by the Group in recent years, your Company is now in a position where it has businesses operating in three key sectors of the personal finance markets, each with opportunities for significant future growth.

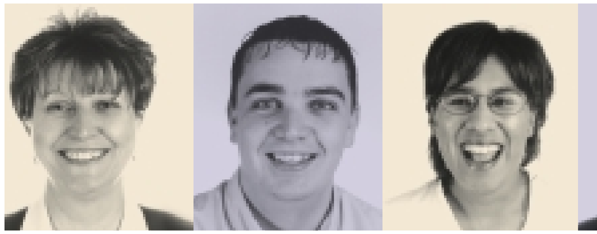
The strategic direction which was determined two years ago remains appropriate; our new businesses draw on the core skills of the Group and each has the potential to grow and to generate profits which will build Paragon strongly and enhance shareholder value in the years ahead. The economic environment and outlook, both in the UK and in the UK's major trading partners overseas, seem sufficiently encouraging that we have set strong attainable growth targets in our three year forward plans. This planned growth has implications for the funding of the business in the longer term which we shall address in due course. In the meantime, our policy of securitising all new assets generated by our businesses will continue and this process still offers the most prudent long term, matched and cost effective funding of our assets.

STAFF

I would like to record my thanks to my fellow directors and the staff at Paragon for their continuing commitment, professionalism and enthusiasm.

Jonathan Perry, Executive Chairman,
17 December 1999.





Operating expenses of £31 million were less than 2% up on the previous year

Chief Executive's review

The Group has enjoyed a further year of excellent progress, with profits before tax increasing to £33.8 million, from £25.1 million in 1998, an increase of 34.7%. During the year, 28,507 new loans were made across our business divisions, with the result that at 30 September 1999 the Group had a total of 101,276 customer accounts under management.

FINANCIAL REVIEW

Net interest income increased to £55.4 million (1998: £49.5 million), the increase of 11.9% reflecting the growth in loans to customers during the year and the inclusion of unsecured loan assets for the full year. Other operating income increased by 14.4% to £12.7 million (1998: £11.1 million) reflecting higher insurance commissions and fees from third party servicing.

During the year, a total of £419.7 million of loans were advanced to customers, 30% higher than the previous year. Despite this increase, and the inclusion of a full year's costs in the consumer finance business purchased from Lloyds TSB the previous year, operating expenses of £31.0 million (1998: £30.4 million) were less than 2% up on the previous year. This reflects the determination of management to achieve improved productivity while ensuring that all business areas are adequately resourced to provide effective administration and a high quality service to customers. It also evidences the benefits of a centralised, rather than branch based, lending operation and a core element of our strategy is to maintain a tight control of costs while continuing the development of sound, profitable businesses.

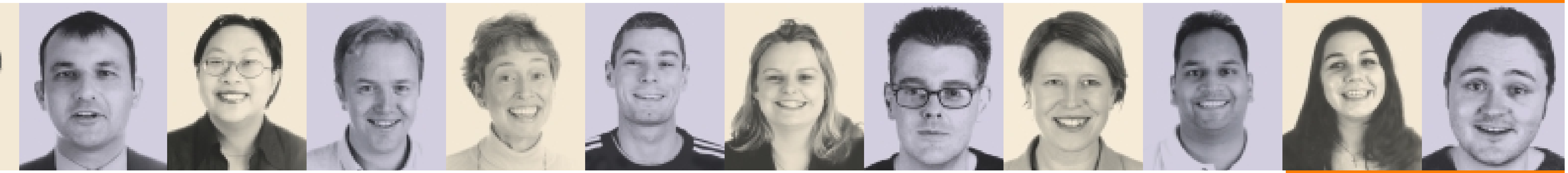
Provisions for losses of £5.8 million (1998: £5.1 million) reflect charges made against the car finance and personal finance assets of the Group. The arrears levels in respect of the mortgages advanced since we recommenced lending in 1994 remain well below the industry average and no significant loss provisions have been required against these loans. No further provisioning was required in the year in relation to the mortgage loans advanced prior to 1992. Our policy is to seek below industry average arrears through a focus on tight underwriting and effective collection techniques and is designed to minimise bad debts and ancillary costs whilst optimising the capital efficiency of the securitisation financing arrangements.

The profit and loss account includes, as a separate item, a credit of £2.5 million in respect of the profit on the sale of the Group's former freehold property in Solihull, which was reported in our interim statement. In connection with this transaction £3.9 million, being the previous surplus on revaluation of the property, was transferred from revaluation reserve to distributable reserves, with the overall effect that the disposal has increased distributable reserves by £6.4 million.

The increasing profitability of the Group makes it necessary to sustain a tax charge of 10% in respect of the year ended 30 September 1999. It is likely that the charge, as a percentage of Group profits, will rise in the next two years towards normal corporation tax rates.

During the year total loans to customers increased to £1,482.5 million from £1,379.2 million at 30 September 1998. Our strategy in seeking customers of high credit quality in niche markets is intended to develop the asset base required to underpin the long term profitability of the Group and maximise shareholder value. The rate of progress has been encouraging, and as the old poorer quality assets, including the old NHL portfolio, run off, they are being replaced by a portfolio of much higher quality but which nevertheless carries good lending margins.

Nigel Terrington, Chief Executive (left) with Nicholas Keen, Finance Director.



FUNDING

In June, the Group completed its thirty-second public securitisation issue under the name of Paragon Mortgages (No. 1) PLC. £185 million was raised, the senior notes being rated AAA by Standard & Poor's and Aaa by Moody's. The issue securitised a portfolio consisting entirely of loans originated by Paragon Mortgages.

Advances to customers are initially funded by a 'warehouse' facility provided by a banking syndicate. The assets are held in the warehouse until the volume of lending has reached a level where it becomes cost effective to transfer them into a securitisation vehicle company. As a result of the rate of growth of new business and the diversity of the products now offered by the Group, the terms of the warehouse were renegotiated during the year to permit improved flexibility for product changes and the size of the facility was increased from £150 million to £300 million. The additional warehouse capacity will allow economies of scale in future securitisations, thereby reducing the frequency of securitisation issues.

FIRST MORTGAGES

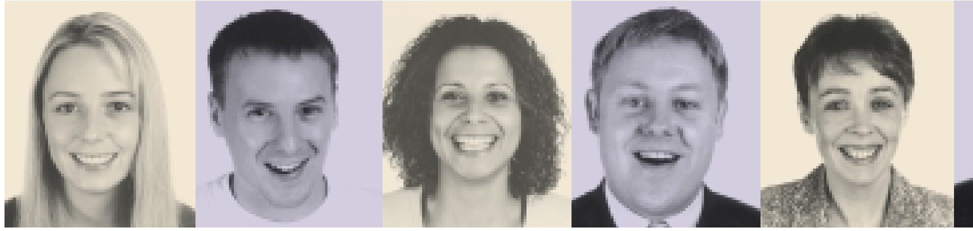
A total of 5,278 new accounts were completed during the year, compared with 4,862 in 1998, with the result that at 30 September 1999 14,124 of the total customer accounts of the Group related to Paragon Mortgages. During the year, the Paragon Mortgages loan book overtook the old NHL book, a significant milestone in the development of our first mortgage business. The continuing emphasis on strengthening our distribution base has resulted in the further development of key introducer relationships, in particular with members of the National Association of Commercial Finance Brokers along with a number of master broker networks. We are pleased to report that our customer satisfaction surveys continued to show that the business is providing the highest level of customer service we have ever achieved in our first mortgage lending activities.

Although competition has increased in certain aspects of the buy to let market over the last year, the main emphasis of our business development in the private rented sector has been towards professional private landlords, who account for the majority of our new business flows in this area. Typically, they will be long term investors with a portfolio of properties and many years of experience in the private rented sector. This emphasis has helped to maintain a high quality portfolio at acceptable margins.

As introducers have become more aware of our high credit standards, the general quality of applications has continued to improve and attention is currently being focused on ways of further improving the conversion rate of applications to completions, without compromising credit quality, in order to maximise the return from the underwriting cost base.

During the year house prices in the United Kingdom have continued to increase, although at varying rates from region to region. We have observed that the high rate of increase in house prices in London and the South East has reduced rental yields in that area. However, activity in the private rented sector has increased in other areas of the country where rental yields are more attractive. The private rented sector currently equates to 10% of the UK housing market, and with the demographic outlook of increasing single household formation, older first-time buyers and an increasing student population, this figure is

'A secured loan product was successfully launched through our broker connections during the summer'



High quality service has been increasingly important in winning and retaining customers

expected to grow. Across the country as a whole, demand for rented property is projected to increase in future years and we believe this will result in considerable additional investment in the sector for the foreseeable future.

CAR FINANCE

Paragon Car Finance completed 9,867 new financing contracts during the year, well up on the previous year's level of 5,341. In addition 905 new contracts were entered into by the corporate channel, previously the contract hire division, which was integrated within Paragon Car Finance at the start of the year.

Our high underwriting standards, product range and selective targeting of dealers have all contributed to the successful growth of a high quality book with lower than industry average arrears. However, we have for some time been concerned at the outlook for second hand car prices in the UK. On the contract hire side, our pricing stance has reflected this cautious approach and consequently the fleet under management has been allowed to contract over the year. Additionally, the main thrust of our business is personal car finance where our focus in looking for high quality customers reduces any reliance on residual values. We will continue to grow this book by broadening the dealer base, improving penetration levels whilst maintaining high credit standards.

PERSONAL FINANCE

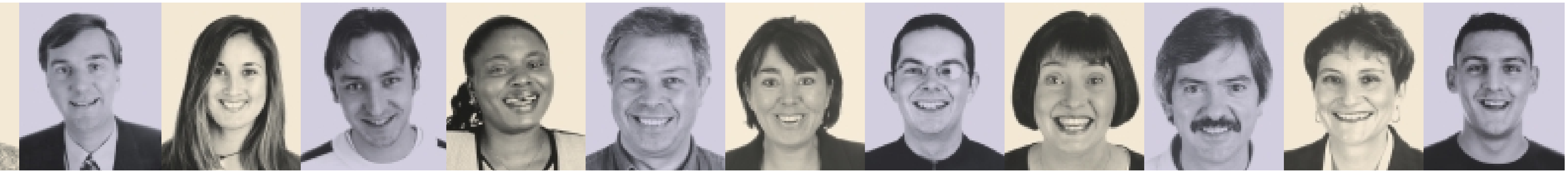
This division added 13,235 new customer accounts during the year, compared with 7,403 in the previous year. Of this total, 4,544 accounts completed in the final quarter of the year, reflecting the increasing level of activity within this business. In addition to building the unsecured business, a secured loan product was successfully launched through our broker connections during the summer.

We are pleased at the progress made across the entire product range within this business, in particular the timeshare product, which completed 3,775 loans in the year. Demand for all products remains strong, despite increases in interest rates during the year.

The process of integrating the Universal Credit (UCL) business acquired in 1998 was completed during the year with the transfer of the collections activity from Victoria to our experienced collections team in Solihull. During the course of the year, new systems were introduced and Paragon's working methods applied across the business. We have seen improvements in the performance of the old UCL book and in the quality of new business completed. In due course, we plan to move the remainder of the personal finance business, principally the new business areas, to Solihull. This will complete the operational integration of the personal finance business within the Group and will enable us to improve cost efficiency within the business.

CUSTOMER FIRST PROGRAMME

The markets in which we trade are highly competitive and the Group constantly seeks ways to differentiate itself. Whilst product, price and marketing are all important aspects, the provision of a high quality service has been increasingly important in winning and retaining customers. Over a year ago we launched Customer First, a programme designed to drive a high service standard culture throughout the business. During the year, we initiated a major training programme under the banner Customer First College, using individually tailored



training courses and coaching methods. Its objective is to identify the customer service development needs of the individual and deliver attitudinal and skills training designed to take each employee to their targeted level of skill and competence.

We encourage our staff to remain focused on the need to improve customer service through a number of recognition awards, including Outstanding Customer Service Awards (OSCA) and Exceeding My Expectation awards (EME). Employees are also encouraged to participate in the Ideas Forum, an intranet based scheme, whereby project teams, known within Paragon as +1 teams, investigate ways to improve our service, reduce costs and increase revenue.

TECHNOLOGY

Paragon's business activities are supported by technology through our operational systems and also our support for e-commerce. These systems support a vast array of different products and distribution channels, and allow the rapid introduction of new products and business channels.

Our key focus in this area over the next year will be the utilisation of technology to deliver improved service and increase business efficiency. Where appropriate, this is to be effected by the use of Internet technologies in order to integrate distribution channels with Paragon's in-house systems. To this end, an initiative has been launched to develop such capabilities, with results already being seen in the redevelopment of the corporate web site and the launch of a web site to support Paragon Personal Finance. The programme will be wide-ranging, affecting most areas of the Group, and its objectives will include:

- enabling introducers and direct customers to utilise the systems operated by Paragon to allow them to make applications on-line and also receive an automated decision in principle on such applications;
- integrating business processes, such as automated credit referencing, credit scoring, affordability tests, case referrals to third parties and issuance of solicitors' instructions; and
- allowing introducers and customers to track information on their loans, providing an enhanced service to both customers and introducers throughout the life of a loan.

Whilst there will be certain investment costs required, much of the development work will be managed in-house and costs are expected to be recovered over the short term.

CONCLUSION

During the year, we have achieved a further significant increase in profits, expanded our asset base and developed the core businesses of the Group in order to sustain the earnings growth that has been achieved in recent years. We have now also been able to demonstrate conclusively that the Group has been successful in developing businesses which will replace the declining NHL income stream with earnings from a high quality, profitable customer base. Going forward, we must build on these achievements and whilst we are optimistic about the Group's ability to achieve further growth, our markets are competitive and the environment will undoubtedly remain challenging.

Current promotional material for our Timeshare customers.

Nigel S Terrington, Chief Executive,
17 December 1999.

Directors' report

The directors submit their Report and Accounts for the year ended 30 September 1999 which were approved by the Board on 17 December 1999.

PRINCIPAL ACTIVITY

The Company is a holding company co-ordinating the activities of its subsidiary companies. The principal activities of the Group continue to be the operation of its residential mortgage, personal finance and car finance businesses.

The Chairman's Statement and the Chief Executive's Review on pages 5 to 12 contain a review of the Group's business during the financial year, its current position and future prospects.

RESULTS AND DIVIDENDS

The results for the year are shown in the Consolidated Profit and Loss Account on page 27.

The directors recommend a final dividend of 1.9p per share (1998: 1.7p per share) which, together with the interim dividend of 1.5p per share (1998: 1.3p per share) paid on 30 July 1999, makes a total of 3.4p per share. After dividends, retained profits of £26.3 million (1998: £20.8 million) have been transferred to reserves.

DIRECTORS

The directors who served during the year are shown in the table opposite. The interests of directors serving at 30 September 1999 in the share capital of the Company, all beneficially held, are shown opposite.

Directors serving at 30 September 1999

	At 30 September 1999 Ordinary Shares of 10p each	At 30 September 1998 Ordinary Shares of 10p each
J P L Perry	**252,437**	278,437
N S Terrington	**59,240**	73,406
N Keen	**10,000**	10,000
A D Chambers*	**500**	6,562
D A Hoare*	**34,650**	34,650
F W Hulton*	**42,656**	42,656
M J R Kelly*	**26,906**	26,906
C Weiser*	**3,846**	**

D F Banks resigned from the Board on 30 October 1998 and C Weiser was appointed on that date.

M J R Kelly resigned as an executive director on 31 March 1999 and was appointed as a non-executive director on that date.

* Non-executive directors.

** At the date of his appointment C Weiser had no interest in the issued share capital of the Company.

In addition, certain directors had interests in the share capital of the Company by virtue of options granted under the executive share option schemes, details of which are given in note 20 on page 42.

With the exception of Mr M J R Kelly, who has disposed of his entire interest, there has been no change in the directors' interests in the share capital of the Company since 30 September 1999.

The directors have no interests in the shares or debentures of the Company's subsidiary companies.

In accordance with the Articles of Association, Professor A D Chambers and Mr F W Hulton will retire and, being eligible, will offer themselves for re-appointment at the forthcoming Annual General Meeting. None of these directors has a service contract with the Company requiring more than 12 months' notice of termination to be given.

None of the directors had, either during or at the end of the year, any material interest in any contract of significance with the Company or its subsidiaries.

SUBSTANTIAL SHAREHOLDINGS

As at 30 November 1999, being a date not more than one month before the date of the notice convening the forthcoming Annual General Meeting, the Company had been notified of the following interests of more than 3% in the nominal value of the ordinary share capital of the Company:

Substantial Shareholdings

	Ordinary Shares	% Held
Schroder Investment Management Limited	19,742,380	16.97
Prudential Corporation plc	17,838,281	15.33
Hill Samuel Asset Management Limited	8,144,170	7.00
Legal and General Investment Management Limited	5,376,084	4.62
Aegon UK plc	4,245,643	3.65
Phillips & Drew	3,934,458	3.38
Standard Life Assurance Co	3,834,039	3.30
Threadneedle Asset Management Limited	3,738,972	3.21
Robert Fleming & Co Limited	3,628,439	3.12

EMPLOYEES' INVOLVEMENT

The directors recognise the benefit of keeping employees informed of the progress of the business. Employees have been provided with regular information on the performance and plans of the Group, and the financial and economic factors affecting it, through both information circulars and management presentations.

EMPLOYMENT OF DISABLED PERSONS

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. The Group has continued its policy of providing appropriate training and career development to such persons.

CHARITABLE CONTRIBUTIONS

Contributions to charitable institutions in the United Kingdom amounted to £6,504.

CLOSE COMPANY STATUS

So far as the directors are aware, the Company is not a close company for taxation purposes.

CREDITOR PAYMENT POLICY

The Company agrees terms and conditions with its suppliers. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier. The trade creditor days figure has not been stated as the measure is not appropriate to the business.

YEAR 2000

A full review of the Group's computer systems was carried out in June 1996 to determine the effect of the year 2000 date change and following this review a programme of systems work was produced. A number of in-house project teams have worked through the programme, upgrading and testing the systems affected.

Good progress was made and, in particular, we are pleased to report that all in-house application systems have been tested and upgraded as necessary. A review of all our key business relations is also now complete.

The estimated cost of modifications to our computer hardware and software is around £800,000, most of which is expected to be capitalised as system enhancements. By 30 September 1999, £694,000 had been incurred, of which £164,000 was incurred during the year then ended.

AUDITORS

A resolution for the re-appointment of Deloitte & Touche as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

DETAILS OF RESOLUTIONS TO BE PROPOSED AS SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

Resolution 5

Section 80 of the Companies Act 1985 states that the directors may not exercise a company's power to allot its unissued shares unless given authority to do so by resolution of the shareholders in general meeting.

The present authority of the directors to allot the unissued ordinary share capital of the Company was granted at the previous Annual General Meeting on 28 January 1999 and will expire at the end of the forthcoming Annual General Meeting. Resolution 5 seeks to increase the Company's authorised share capital by £2,500,000 to £17,500,000, an increase of 16.7% to provide sufficient headroom for future issues, and to renew, for a further year, the present authority of the directors to allot ordinary shares up to an aggregate nominal value of £4,383,870 representing 37.7% of the Company's issued capital at 30 November 1999 and being one third of issued capital plus shares issuable under option. The directors have no present intention of exercising this authority, which will expire at the conclusion of the following Annual General Meeting.

Resolution 6
Under Section 89 of the Companies Act 1985, any shares allotted wholly or partly in cash must be offered to existing shareholders in proportion to their holdings, but this requirement may be modified by the authority of a special resolution of the shareholders in general meeting.

The authority given at the previous Annual General Meeting will expire at the end of this year's Annual General Meeting and Resolution 6 seeks to renew it. The resolution authorises the directors to allot shares for cash, other than to existing shareholders in proportion to their holdings, up to an aggregate nominal value of £581,000, representing 5% of the Company's issued share capital at 30 November 1999.

Resolution 7
With the Senior Executive Share Option Scheme having expired and the ESOP Executive Share Option Scheme expiring next year, it is proposed that a new Executive Share Option Scheme should be established. The directors are therefore seeking your approval in Resolution 7 to establish the Paragon 2000 Executive Share Option Scheme, under which options can be granted over the next ten years.

A summary of the rules of the Scheme is enclosed with this report. The rules are to be submitted for approval by the Inland Revenue. The directors reserve the right up to the meeting to make such amendments and additions to the Scheme as they consider appropriate provided they do not conflict in any material respect with the summary of the rules.

The rules will be available for inspection, until the conclusion of the Annual General Meeting, at 6 Greencoat Place, London, SW1P 1PL, and at the meeting itself for at least fifteen minutes prior to and during the meeting.

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

John G Gemmell, Company Secretary,
17 December 1999.

Report of the Board to the shareholders on directors' remuneration

REMUNERATION COMMITTEE

The Committee consists solely of four non-executive directors: William Hulton, Professor Andrew Chambers, David Hoare and Charles Weiser. The Chairman of the Remuneration Committee is William Hulton. None of the directors comprising the Committee have any personal financial interests (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee consults the Chairman and Chief Executive about its proposals and has access to professional advice from within and outside the Company.

The Committee determines the Company's policy on executive remuneration and specific compensation packages for each of the executive directors. No director contributes to any discussion about his own remuneration.

REMUNERATION POLICY

The Company's policy is to ensure that executive directors are fairly rewarded for their individual performance, having regard to the importance of retention and motivation. The performance measurement of the executive directors and the determination of their annual remuneration packages is undertaken by the Committee. The remuneration of the non-executive directors is determined by the Board.

In forming and reviewing remuneration policy the Committee has given full consideration to Section B.1 of The Combined Code.

The remuneration packages of the individual directors have been assessed after a review of their individual performances and an assessment of comparable positions in the financial sector.

All executive directors are remunerated by a means of a combination of salary, performance bonus, pension scheme contributions, benefits in kind and by the award of share options or shadow share options from time to time.

SALARY

An executive director's salary is determined by the Remuneration Committee at the beginning of each year. In deciding appropriate levels the Committee considers the Group as a whole and relies on objective research which gives up-to-date information on comparable companies. Executive directors' contracts of service, which include details of remuneration, will be available for inspection at the Annual General Meeting.

PERFORMANCE BONUSES

Bonuses are earned under performance related schemes based upon individual performance and that of the Group as a whole. Bonuses are normally paid in October but are accrued in the year to which they relate.

PENSION CONTRIBUTIONS

During the year, two of the executive directors were members of the Group Retirement Benefits Plan, to which the Company contributes at the same rate as for all members while in respect of one executive director the Company paid monthly contributions into his personal pension scheme. Dependants of executive directors who are members of the Group Retirement Benefits Plan are eligible for a dependant's pension and the payment of a lump sum in the event of death in service. The pension arrangements provide for a pension of 1/37.5 of basic annual salary (to a maximum of 2/3) for every year of eligible service. Where pension contributions are capped, additional payments are made to enable further provision.

The changes in pension entitlements arising in the financial year, the disclosure of which is required by the London Stock Exchange, are given in note 5 to the accounts. There have been no changes in the terms of directors' pension entitlements during the year. There are no unfunded promises or similar arrangements for directors.

SHARE OPTIONS

Acting on the recommendations of the Remuneration Committee, the Board proposes a new share option scheme, a summary of the rules of which is being distributed to the shareholders with this report and to which the approval of the shareholders will be sought at the Annual General Meeting.

Executive directors' existing share options were granted under the Senior Executive and Executive (ESOP) Share Option Schemes. The Senior Executive Scheme requires the consolidated earnings per share to increase at a rate in excess of the retail price index over a period of three years from the date the option is granted. The exercise of options granted under the ESOP Executive Share Option Scheme is not dependent upon performance criteria.

The Committee has minuted a decision that the members in Annual General Meeting need not be invited to approve other aspects of the remuneration policy set out in this report. The Chairman of the Committee will, however, be available to answer questions on remuneration policy at the Annual General Meeting.

DIRECTORS' CONTRACTS

All executive directors hold one year rolling contracts and the Remuneration Committee reviews the terms of these regularly. None of the directors seeking re-election at the Annual General Meeting has a service contract with the Company.

NON-EXECUTIVE DIRECTORS

All non-executive directors have specific terms of engagement and their remuneration is determined by the Board, subject to the Articles of Association. The fee paid to each non-executive director in the year was £20,000. The chairmen of the Audit Committee and Remuneration Committee receive an additional £2,500.

Non-executive directors are not eligible to participate in any of the Company's share option schemes or to join the pension scheme. Options over 3,365 shares remain granted to Michael Kelly from his previous appointment as an executive director.

The information on directors' remuneration and share options contained in notes 5 and 20 forms part of this report.

By order of the Board

John G Gemmell, Company Secretary,
17 December 1999.

Statement of directors' responsibilities in relation to financial statements

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements (on pages 27 to 50), the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' report

TO THE MEMBERS OF THE PARAGON GROUP OF COMPANIES PLC

We have audited the financial statements on pages 27 to 50 which have been prepared under the accounting policies set out on pages 31 and 32.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including, as described on page 19, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the statement on page 23 reflects the compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the corporate governance procedures or the Group's internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implication for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

17 December 1999
Deloitte & Touche
Chartered Accountants and
Registered Auditors
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN

Corporate governance

The Combined Code, which sets out Principles of Good Corporate Governance and Code provisions, was issued by the London Stock Exchange in June 1998. A statement on how the Company has applied the Principles of Good Corporate Governance and a statement explaining the extent to which the provisions in the Code relevant to companies have been complied with appear below.

DIRECTORS

The Board of directors comprises three executive and five non-executive directors, all of whom bring to the Company a broad and valuable range of experience. Jonathan Perry has been Executive Chairman since February 1992 and Nigel Terrington Chief Executive since June 1995. In accordance with the Code, all directors will submit themselves for re-election at least once in every three years.

There is a clear division of executive responsibilities at the head of the Company and strong non-executive representation on the Board, including William Hulton who has been nominated as the senior non-executive director. This provides effective balance and challenge. The Board meets regularly throughout the year and is responsible for overall Group strategy, for approving major agreements, transactions and other financing matters and for monitoring the progress of the Group against budget. There is a formal schedule of matters reserved for decision by the Board.

Professor Andrew Chambers, David Hoare, William Hulton and Charles Weiser, being the majority of non-executive directors, are independent of management and all non-executive directors are appointed for fixed terms. They fulfil a vital role in helping the executive to develop the Company, are kept fully informed of all relevant operational and strategic issues and bring a strongly independent and experienced judgement to bear on these issues.

All directors are able to take independent professional advice in the furtherance of their duties whenever it is considered appropriate to do so.

The Board also operates through a number of committees covering certain specific matters, these being:

- *The Remuneration Committee, consisting of William Hulton, who chairs the committee, Professor Andrew Chambers, David Hoare and Charles Weiser.*
- *The Audit Committee, consisting of all the non-executive directors and chaired by Professor Andrew Chambers. The committee meets at least three times per year. It oversees the monitoring of the adequacy of the Group's internal controls, accounting policies and financial reporting, monitors the adequacy of the Group's audit arrangements and the relationship between the Company and the auditors and provides a forum through which the Group's external and internal audit functions report to the non-executive directors.*

- *The Asset and Liability Committee, consisting of the executive directors and chaired by Nigel Terrington, the Chief Executive. It meets regularly and monitors Group interest rate risks, currency risks and treasury counterparty exposures.*
- *The Credit Committee, consisting of appropriate heads of functions and chaired by Nicholas Keen, the Finance Director. It meets regularly and is responsible for establishing credit policy and monitoring compliance therewith.*
- *The Nomination Committee, consisting of Jonathan Perry, who chairs the committee, and two non-executive directors. The committee is convened as required to nominate candidates for membership of the Board, although ultimate responsibility for appointment rests with the Board.*

All Board committees operate within defined terms of reference.

DIRECTORS' REMUNERATION

The Remuneration Committee, reviews the performance of executive directors and members of senior management prior to determining its recommendations on annual remuneration, performance bonuses and share options for the Board's determination.

The Report of the Board to the Shareholders on Directors' Remuneration is on pages 17 and 18.

RELATIONS WITH SHAREHOLDERS

The Board encourages communication with the Company's institutional and private investors. All shareholders have at least twenty working days' notice of the Annual General Meeting at which the directors and committee chairmen are available for questions. The Annual General Meeting provides an opportunity for directors to report to investors on the Group's activities and to answer their questions. Shareholders will have an opportunity to vote separately on each resolution and all proxy votes lodged are counted and the balance for and against each resolution is available for inspection. The Board is of the view that the availability of the results of proxies lodged satisfies the requirement within the Combined Code for an indication of the level of proxies lodged and the balance for and against each resolution.

The Executive Chairman, Chief Executive and Finance Director have a full programme of meetings with institutional investors during the course of the year and the Company's web site at **www.paragon-group.co.uk** provides access to information on the Company and its businesses.

ACCOUNTABILITY AND AUDIT

Detailed reviews of the performance of the Group's main business lines are included within the Chairman's Statement and Chief Executive's Review. The Board uses these, together with the Directors' Report on pages 13 to 16 to present a balanced and understandable assessment of the Company's position and prospects.

The directors' responsibility for the financial statements is described on page 19.

The directors are responsible for the system of internal financial control throughout the Group. Such a system can provide reasonable, but not absolute, assurance that assets are safeguarded against unauthorised use or disposition, that proper accounting records are maintained and that financial information used within the business and for publication is reliable. In assessing what constitutes reasonable assurance, the directors have regard to the relationship between the cost and benefits from particular aspects of the control system.

The system of internal financial control includes documented procedures covering accounting, compliance, risk management, personnel matters and operations, clear reporting lines, delegation of authority through a formal structure of mandates, a formalised budgeting, management reporting and review process, the use of key performance indicators throughout the Group and regular meetings of the Asset and Liability and Credit Committees and senior management.

The system of internal financial control is monitored by management and by an internal audit function that concentrates on the areas of greater risk and reports its conclusions regularly to management and the Audit Committee. The internal audit work plan is approved annually by the Audit Committee, which reviews the effectiveness of the system of internal financial control annually and reports its conclusions to the Board.

GOING CONCERN BASIS

After making enquiries, the directors have a reasonable expectation that the Group and the Company 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 accounts.

COMPLIANCE STATEMENT

The Listing Rules require the Board to report on compliance with the forty-five Code provisions throughout the accounting period. The Company has complied throughout the accounting period ended 30 September 1999 with the provisions set out in Section 1 of the Code.

As permitted by the London Stock Exchange, the Company has complied with Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance on internal control and financial reporting that was issued in December 1994.

Board of Directors

Jonathan P L Perry
Executive Chairman

Jonathan Perry joined the Group as a non-executive director in June 1991 and was appointed Executive Chairman in January 1992. Between 1997 and 1999 he was Vice-Chairman, Investment Banking Division, HSBC Investment Bank plc. Previously he was with Deutsche Morgan Grenfell for 22 years.

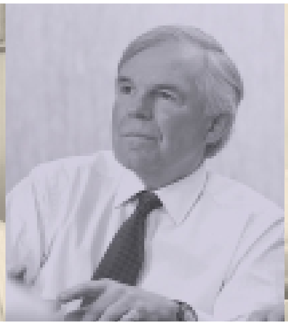
Nigel S Terrington
Chief Executive

Nigel Terrington joined the Group in 1987 and became Chief Executive in June 1995, having held positions of Treasurer and Finance Director. Prior to Paragon, Nigel worked for many years in merchant and international banks. He is on the Executive Committee of the Council of Mortgage Lenders and is Chairman of the Intermediary Mortgage Lenders Association.

Nicholas Keen
Finance Director

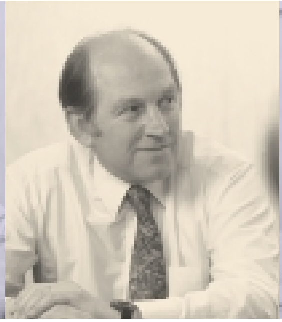
Nicholas Keen joined the Group in May 1991 and became Finance Director in June 1995 having previously held the position of Treasurer. Prior to joining the Group he worked in Corporate Banking, Treasury and Capital Markets. He is Chairman of the Credit Committee.

F William Hulton OBE
Non-Executive Director



Director of Botts & Co Limited and chairman of the Gartmore Korea Fund plc. From 1990–1992 he was Managing Director of Corporate Finance at Hoare Govett Limited. He has been a non-executive director of Paragon since January 1993 and is Chairman of the Paragon Remuneration Committee.

Professor Andrew D Chambers
Non-Executive Director

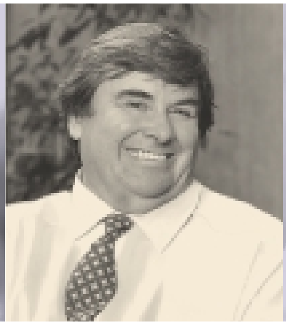


Managing Director of Management Audit Limited and Professor of Audit and Control at The University of Hull. He is the Chairman of Paragon's Audit Committee and has been a non-executive director of Paragon since February 1991. He is author or co-author of ten current auditing books.

David A Hoare
Non-Executive Director

Principal and a Director of Talisman Management Limited. He previously held the position of Chief Executive at Laura Ashley and has been a non-executive director of Paragon since May 1994.

Michael J R Kelly
Non-Executive Director



Michael Kelly joined the Group in February 1994. He has some 30 years' experience in financial services, and was the founder of Mortgage Systems Limited which, before it was sold, was the largest independent mortgage servicing company in the UK managing over £3.5 billion of mortgage assets.

Charles Weiser
Non-Executive Director

Director of Marketing, RAMS Home Loans Pty Limited, an Australian registered mortgage originator. From 1992 to 1999 he worked for British Airways PLC where from 1995, he was Senior Manager, Financial Services and Business Partners, while afterwards serving as Chief Executive of BA Global Financial Services. He has been a non-executive director of Paragon since October 1998.