The Paragon Group of Companies PLC

annual report & accounts 2000

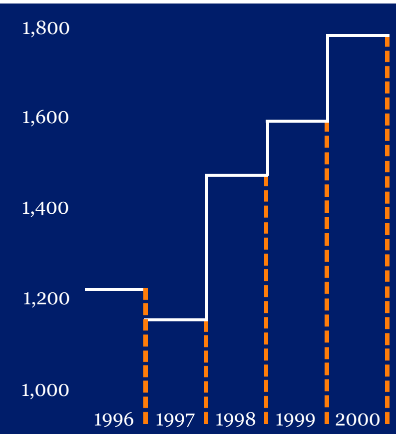
contents

financial highlights

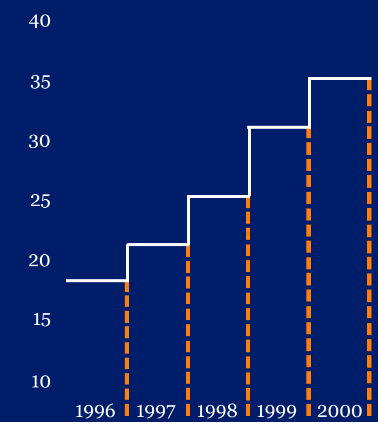
	2000	1999	1998	1997	1996
	£m	£m	£m	£m	£m
Profit before taxation	35.5	33.8	25.1	21.6	18.1
Profit after taxation	28.5	30.3	23.9	21.6	18.1
Assets under management	1,784.4	1,597.7	1,470.6	1,151.1	1,214.8
Shareholders' funds	137.7	113.5	86.8	63.0	49.0
Earnings per share - basic	25.1p	26.1p	22.4p	23.4p	19.7p
- diluted	24.9p	25.8p	22.1p	23.3p	19.1p
Dividend per ordinary share	3.8p	3.4p	3.0p	2.7p	2.4p

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'.

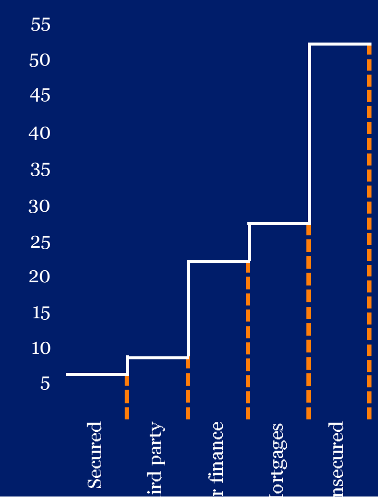
The earnings per share in 1997 and 1996 have been adjusted to reflect the rights issue during 1998.



Assets under management - £m



Operating profit - £m



Accounts under management - number '000


company values
commitment
humour
respect
integrity
professionalism
creativity
teamwork

company values

commitment

To drive the business forward with determination and to do so with effort and enthusiasm

humour

To ensure we have fun while achieving success

respect

To treat people as individuals and to listen to their views

integrity

To be ruthlessly honest and open in everything that we do

professionalism

To maintain the highest standards and to deliver our products and services with care and accuracy

creativity

To identify and create new business opportunities and to apply creative and effective solutions to problems

teamwork

To work in harmony in our respective teams and collectively towards the delivery of our overall objectives

chairman's statement

I am pleased to report that the Group continued its strong growth, both in terms of profitability and in terms of business volumes, during the year ended 30 September 2000. Operating profit increased by over 13% and new lending increased by 22%. Furthermore, after the year end, we acquired Colonial Finance (UK) Limited which not only increases our asset base significantly but, more importantly, gives us access to an important new product and distribution channel through which to expand our consumer finance business.

Profit before tax for the year ended 30 September 2000 was £35.5 million (1999: £31.3 million before a £2.5 million profit on sale of property), an underlying increase of 13.4%. After a corporation tax charge of £7 million (1999: £3.5 million) the profit after tax was £28.5 million (1999: £30.3 million). Earnings per share were 25.1p, compared to 26.1p for the previous year, the reduction from last year being attributable to the increased corporation tax charge and to the impact of the profit on sale of property; excepting these items this figure would have increased by 16%.

In view of these strong results the Board is pleased to propose, subject to approval at the Annual General Meeting, the payment on 2 February 2001 of an increased final dividend of 2.1p per share which, when added to the interim dividend of 1.7p paid in July 1999, gives a total dividend of 3.8p per share for the year, an increase of 11.7% on last year's dividend of 3.4p.

Progress review and future strategy

My statement this year is intended to emphasise for existing and potential shareholders the enormous progress which has been achieved in meeting the strategy outlined to shareholders in previous statements.

Since re-entering the lending markets in 1995, Paragon has created a niche mortgage business attracting proper margins and has generated further loan assets with the addition of consumer finance businesses all supported by Paragon's core skills in underwriting and collections. All of our lending is underpinned by cost-effective funding through securitisation of the assets.

Paragon's plan to create three new business streams, both to replace the run-down of NHL's book and to create a platform for future growth, has been achieved. All of these businesses now contribute to profits and have strong growth potential.

Paragon Mortgages' loan portfolio now totals £790.8 million having grown by 25% in the past year. Arrears are minimal and Paragon's strong position in the Buy to Let market will ensure continuing growth. These are high quality earnings.

Paragon Personal Finance comprises both unsecured and secured personal loan businesses, and includes our own organic growth since the start up in 1997, the 1998 acquisition of Universal Credit and the post balance sheet acquisition of Colonial Finance (UK). Total loan assets at

30 September 2000 equalled £352.4 million, an increase of 38.4% over the previous year. Subsequently, Colonial has added approximately £174 million of balances and an established retail 'point of sale' business to complement our affinity, broker and timeshare sourcing. We plan for strong growth of the Paragon Personal Finance business.

Paragon Car Finance commenced operations in 1997 and had £128.4 million of loans outstanding at 30 September 2000, an increase of 81% in the year. Again, this business has arrears below the industry average and in a fragmented market has the potential to grow strongly.

In contrast, the old NHL book has declined to £398.1 million, representing only 23.8% of total loan assets at 30 September 2000.

Securitisation continues to provide both a discipline and cost-effective matched funding for all Paragon assets. Overall, funding is in place to provide for our ambitious organic growth plans. Further acquisitions in the areas of our core skills will be made where value can be added.

Paragon's business has been transformed from the old NHL. All of the new businesses now contribute increasingly to profits with the personal finance business taking an increasingly dominant role. Paragon's emphasis will continue to move towards consumer finance both in volume and contribution in the future. Our new businesses are in robust good health and leading the drive for profits growth. We believe that these factors together with Paragon's inherent strengths will be reflected before long in the market value accorded to Paragon.

The past year saw strong organic growth, both in terms of business written and in profits, followed in October by an important acquisition which we expect to be earnings enhancing in the current financial year. We have in place the spread of business lines and the asset base to deliver continuing strong growth for shareholders.

Overall, Paragon's opportunities increase daily as our strength develops. On the assumption of reasonably benign economic circumstances, which we anticipate, Paragon can accelerate further. We move into the current financial year with considerable optimism.

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 P L PERRY

EXECUTIVE CHAIRMAN

7 DECEMBER 2000


Our Vision is to become the UK's most highly regarded specialist provider of finance for people.
Jackie Lowe

chief executive's review

The year to 30 September 2000 has been a period of intense activity in each of our businesses and much has been achieved. It was pleasing to report the healthy increase in profits to £35.5 million. However, particularly pleasing was the underlying growth in each of the businesses and the progress achieved in laying firm foundations for robust and sustainable growth in the future.

This growth potential has been further enhanced by the acquisition of Colonial Finance (UK) Limited shortly after the balance sheet date. This brings to us skills and experience in a new area of lending and we welcome all the staff of Colonial who have joined the Paragon Group.

Financial review

During the year, new lending increased by 22% to £510 million from £419.7 million in 1999 resulting in net growth in loan assets of 12.6% to £1.7 billion. Of the new originations, £285.9 million were in the second half of the year and in each of the last three months of the year over £50 million was advanced. The rising interest rate environment resulted in a steeply positive yield curve during the year, with a consequent impact on the cost of three-month LIBOR compared to base rates on our variable rate business, and on the apparent competitiveness of fixed rate offerings compared to variable rate alternatives. Despite these negative factors Paragon's average margins increased during the year, from 4.4% to 4.7% primarily due to the changing mix of the business. The prevailing view is that we have reached the top of the interest rate cycle with the helpful consequence that the yield curve has now flattened.

Other income, at £14 million, was 10% higher than the £12.7 million for 1999. However, after excluding net rental income relating to the Group's freehold property in Solihull, which was sold in April 1999, other operating income for 1999 was £11.9 million, the effective increase being 17.6 % on a comparable basis.

Our continuing focus on maximising operating efficiencies has resulted in a reduction in operating expenses from £31 million to £30.6 million, a considerable achievement when set against the significant growth in business volumes. The cost to income ratio of 40% compares with 45% in 1999. We anticipate that operating expenses may rise in the current year as we integrate the business of Colonial Finance (UK) Limited but we expect the downward trend in the cost to income ratio to continue next year.

The provisions charge of £10.2 million was in line with our expectations and compares with £5.8 million in 1999. The increase reflects the increased proportion of our lending book attributable to personal finance, where arrears are generally higher than for first mortgages. Our arrears performance across all of our new business areas continues to compare favourably with our competitors as a result of our careful credit policy.

Personal Finance

Paragon Personal Finance advanced £165.9 million in new lending during the year, a growth rate of 73.5% from the level of £95.6 million achieved for 1999. At the year end, there were 59,393 accounts under management with an aggregate value of £352.4 million.

Particularly pleasing has been the growth of volume of the secured personal finance product, which completed £71.7 million in the year, up from £7.3 million in 1999 following its launch in July last year. The volume of unsecured lending grew to £94.2 million from £88.3 million. Within this, the volume of timeshare lending was disappointing, as a result of a generally subdued level of activity in that market. However, there were signs of a significant improvement towards the end of the financial year, on the back of Summer sales activity and the higher volumes have continued beyond the year end.

The interim report noted our intention to move the originations area of the unsecured lending business from its location in Victoria to new office space in Solihull. This move was successfully completed in September without any disruption to our business activities.

During the year there were high levels of growth in the personal finance markets and we see many interesting opportunities to broaden and expand our activities in this dynamic area of business.

Following the year end, on 16 October 2000, we were pleased to announce the acquisition of Colonial Finance (UK) Limited from Commonwealth Bank of Australia Group. This acquisition added some £174 million of net loan balances to the Group, together with over 100,000 customers. Colonial has a direct marketing arm, which will provide additional distribution to Paragon's existing business activities in this area when fully integrated. Additionally, the entry into the retail 'point of sale' finance market afforded by the transaction is an important step for the Group in the growth of the personal finance business.

The discount negotiated to net assets and the financing structure used to fund the loan assets acquired has resulted in negligible utilisation of the Group's cash resources and we expect the acquisition to be earnings enhancing in the current financial year. A plan is now being implemented to integrate the operations of Colonial Finance within the Paragon Group.

Car Finance

During the year Paragon Car Finance advanced £100.3 million, an increase of 57% from last year's level of £63.8 million. This is an impressive growth rate, particularly against the backdrop of very depressed conditions in the car market. By 30 September 2000, there were 22,118 accounts under management with a value of £128.4 million.

It is clearly evident that it has been a most difficult year for the car market, with downward pressure on car prices. The vast majority of our business, however, relates to hire purchase agreements with individuals and our stance on establishing a customer base of high credit quality means the incidence of repossessions is relatively low. We are particularly pleased at the arrears performance on the Paragon Car Finance book, which we believe to be better than market average.

Business development has been actively managed by carefully selecting the dealers we work with, rolling out pilot schemes to a number of the larger dealership groups and by maintaining tight control of credit quality. The result of these measures has been to sustain the writing of planned volumes of business at improved credit quality and with a lower unit cost of processing. Considerable headway has also been made in customer retention, and in delivering additional sources of income, such as fees from sales of ancillary insurances and from sub-prime brokerage. Our small contract hire fleet continued to contribute to income over the period; in this area of business we have maintained our cautious policy on pricing new contracts.

Despite implementation by the Government of measures aimed at reducing new car pricing, there is little indication that buyers' confidence has been restored. This is mainly attributable to the Government giving a three month deferral for the equalisation of discounts and we believe it to be unlikely that there will be any signs of a significant return of confidence before the new calendar year. Nevertheless given our strong dealer distribution base and our products, we are confident about the prospects for further growth in our business volumes in the coming year.

First Mortgages

Average year on year property price inflation peaked, according to the Halifax's figures, at 16% in January, falling thereafter, following a combination of monetary and fiscal tightening in the Autumn of 1999 and in the Spring of the current year. By late Spring the London market was running out of steam and by the Summer commentators were downgrading their predictions for the rate of house price inflation across the country. Expectations now are for house prices to continue to increase, but at a slower, more sustainable rate.

Through much of the first half of the financial year housing transactions were on a plateau and there is clear evidence that the market turned down in the late Spring, contributing to the disappointing business levels experienced by most lenders in the first quarter. In our specialist sector, the private rented market, demand for our products was also reduced in the first half of the financial year as the impact of rising interest rates and rising house prices was felt by landlords. Volumes of business advanced by Paragon Mortgages recovered strongly in the second half, however, with the result that advances for the year were £243.8 million (1999: £259.8 million), and first half advances of £110 million compared with £133 million in the second half.

As part of the focus on cost efficiency, close attention has been successfully given to improving the conversion ratio from applications to completions without compromising on quality. We are encouraged by the increased volumes of further advances to existing borrowers. Our status as a specialist lender, particularly to the private rented sector, our competitive pricing structure and high standards of customer service have all contributed to the growth of the portfolio and to the low redemption rate.

We are currently working on a number of new business initiatives to underpin the achievement of the challenging targets we have set ourselves for the new financial year. Inter alia, these include the eCommerce landlord portal on which we reported in our interim report, which we expect to launch in the near future, together with an extension of our private rented sector mortgage activity to service the needs of our customers for commercial as well as for residential investment finance. We believe that conditions in the housing market are likely to support demand for rented property in the foreseeable future, which will support the growth potential of this business.

At 30 September, the Paragon Mortgages book was £790.8 million, representing 17,377 accounts, an increase in balances of 25% over the year. At that date, balances on the 'old book' NHL portfolio were £398.1 million, the natural redemption rate being 22% for the year. Our continuing emphasis on collections activity resulted in cash receipts from NHL customers in arrears improving in the year to 103.6% of the amounts contractually due, from 96% in 1999.

eCommerce

Our eCommerce team have pursued a number of important initiatives in the course of the year. In addition to the maintenance of our web presence for each of our business lines, we have, amongst other things, taken our affinity marketing relationships forward with the establishment of a number of co-branded and affinity branded sites through which our products can be sold; improved efficiency and service delivery to our mortgage intermediaries with the launch of BrokerZone, which permits on-line application and processing, and enhancements such as case-tracking to be delivered to the intermediaries' offices; and we are shortly to launch a new Internet-delivered front-end system for our personal loan business which will enable wider distribution of our products amongst finance brokers. In all cases, our approach is to utilise Internet delivery to support


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

the objectives of our business divisions, rather than as ends in themselves.

As mentioned above, we anticipate launching our landlord Internet portal early in the new year. As well as giving access to our lending products, this will provide on-line delivery of a range of services to landlords to support their letting activities.

Funding

During the year the Group successfully completed a £185 million securitisation issue, the thirty-third public securitisation by the Group. We have continued to be active in the securitisation market and we recently completed our thirty-fourth, being a £195 million securitisation of car and secured personal loans through a subsidiary company, Paragon Auto and Secured Finance (No. 1) PLC. This transaction was our first to include a tranche of notes denominated in euros.

During the first half of the year we replaced our corporate banking facility with a new five year £140 million facility in order to provide the funding required to support planned asset growth in each of our businesses. Following the acquisition of Colonial Finance (UK), we have increased this facility by a further £20 million to £160 million in order to ensure that we can take advantage of opportunities to grow this business in a similar fashion. In addition, we have increased the capacity of our warehouse funding line, through which we finance all newly originated assets prior to securitisation, by £100 million to £400 million. Together these give us the funding to support our planned asset growth.

Customer service

Our Customer First programme, launched two years ago, maintained our drive to develop customer service excellence across all our business lines.

Paragon's in-house training function, the Customer First College, has designed over 80 individually tailored training courses for team leaders and staff. Every member of staff, including directors, has taken part in a multimedia evaluation which assesses their aptitude level in customer service and identifies ongoing training needs.

We have encouraged our staff to take part in the Institute of Customer Service programme and we currently have 74 staff working towards this professional qualification. There are also some 40 staff being sponsored by the Group to achieve qualifications in their core line of work and undertaking NVQs in Customer Service.

58 of our staff have also either qualified, or are currently working towards their qualification, in the Certificate of Mortgage Advice and Practice (CeMAP).

We have continued to encourage our staff through our recognition awards programme. 26 staff, nominated by Paragon's customers, have received an OSCA (Outstanding Service to Customers Award) and 284 have received an EME (Exceeding my Expectations Award).

Finally, I am very pleased to report that Paragon, following a full external review, has received an extension of its Investors in People accreditation for a further 3 years, underpinning our commitment to providing all our employees with opportunities for development.

NIGEL S TERRINGTON

CHIEF EXECUTIVE

7 DECEMBER 2000


Heavy investment in training and software has pushed us to the forefront of the eCommerce sector.
Brian Mills

internet sites

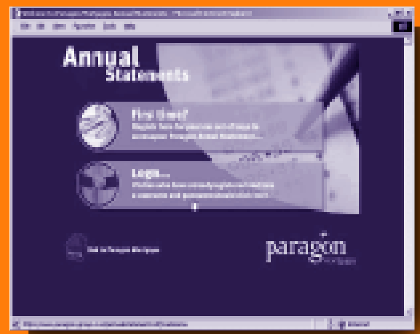
We see the Internet as an important channel for supporting all our customers, whether they are existing or potential customers, car dealers, brokers or affinity partners. All our sites are designed to be intuitive, focusing on content and to be user friendly.

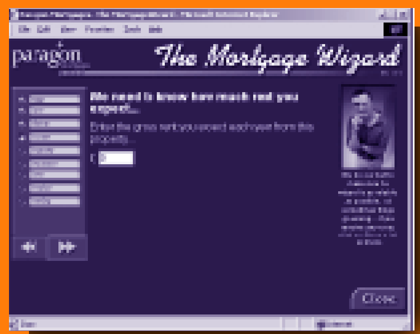
The high availability of our Internet sites, and close integration with our internal computer systems, allows us to deliver new services and products. These are as applicable to our existing borrowers as to our potential investors.

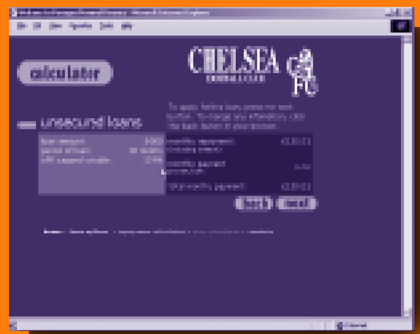
www.paragon-plus.co.uk

Paragon Plus is designed to offer landlords a range of products and services on-line and will be launched early in the new year. The products are based on independent research within our own landlord customer base, which has established the ancillary services landlords typically use, and more importantly, those which our own borrowers would be most inclined to buy from Paragon.

The primary benefit to the landlord, along with competitive pricing and the potential to improve margins, is convenience. All the products and services will be available on-line via **www.paragon-plus.co.uk,** and our most recent research demonstrates that over 90% of our landlord customer base has web access. At the same time, we are fully equipped to handle their enquiries by telephone, fax or post.







board of directors

Jonathan P L Perry
Executive Chairman
Age 61

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
Age 40

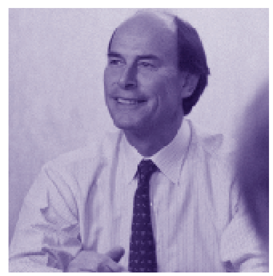
Nigel Terrington joined the Group in 1987 and became Chief Executive in June 1995, having held the positions of Treasurer and Finance Director. Prior to Paragon, he worked in merchant and international banks. He is a member of the MSD Management Committee of the Finance and Leasing Association and was previously the Chairman of the Intermediary Mortgage Lenders Association.

Nicholas Keen
Finance Director
Age 42

Nicholas Keen joined the G
May 1991 and became Fina
Director in June 1995 havi
previously held the positio
Treasurer. Prior to joining
he worked in Corporate Ba
Treasury and Capital Mark
Chairman of the Credit Co

F William Hulton OBE
Non-Executive Director
Age 62

Director of Botts and Co Limited and Chairman of the Gartmore Korea Fund plc. From 1990 to 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.



David A Hoare
Non-Executive Director
Age 50

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

Professor Andrew D Chambers
Non-Executive Director
Age 50

Managing Director of Man
Audit Limited and Professo
Audit and Control at The U
of Hull. He is Chairman of
Audit Committee and has b
non-executive director of P
since February 1991. He is
or co-author of ten current
auditing books.

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

Chief Executive, 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

directors' report

The directors submit their Report and Accounts for the year ended 30 September 2000 which were approved by the Board on 7 December 2000.

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 personal finance, car finance and residential mortgage businesses.

The Chairman's Statement and the Chief Executive's Review on pages 6 to 13 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 30.

The directors recommend a final dividend of 2.1p per share (1999: 1.9p per share) which, together with the interim dividend of 1.7p per share (1999: 1.5p per share) paid on 31 July 2000, makes a total of 3.8p per share. After dividends, retained profits of £24.1 million (1999: £26.3 million) have been transferred to reserves.

Directors

The interests of the directors, all of whom served throughout the year, in the share capital of the Company, all beneficially held, are shown in the following table.

	At 30 September 2000 Ordinary Shares of 10p each	At 30 September 1999 Ordinary Shares of 10p each
J P L Perry	**252,437**	252,437
N S Terrington	**59,240**	59,240
N Keen	**10,000**	10,000
A D Chambers*	**500**	500
D A Hoare*	**34,650**	34,650
F W Hulton*	**42,656**	42,656
M J R Kelly*	-	26,906
C Weiser*	**3,846**	3,846

* Non-executive directors.

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 45.

On 21 November 2000, Mr J P L Perry exercised options over 26,280 shares, Mr N S Terrington exercised options over 26,280 shares and Mr N Keen exercised options over 13,140 shares. Other than this, there has been no change in the directors' interests in the share capital of the Company since 30 September 2000.

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

directors' report

(continued)

In accordance with the Articles of Association, Mr M J R Kelly and Mr D A Hoare will retire and, being eligible, will offer themselves for re-appointment at the forthcoming Annual General Meeting.

Neither 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 2000, 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:

	Ordinary Shares	% Held
Schroder Investment Management Limited	21,912,338	18.83
M & G Investment Management Limited	17,838,281	15.33
Legal & General Investment Management Limited	5,441,900	4.68
Standard Life Assurance Co	4,967,326	4.27
Scottish Equitable Asset Management plc	4,650,643	4.00
Scudder Threadneedle Investments Limited	3,971,172	3.41
Hermes Pension Management Limited	3,967,901	3.41
The Paragon Group of Companies PLC ESOP scheme	3,848,253	3.31
Robert Fleming & Co Limited	3,784,974	3.25
Phillips & Drew	3,736,850	3.21
Barclays Global Investors Limited	3,594,625	3.09

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 £10,786 (1999: £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.

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 17 February 2000 and will expire at the end of the forthcoming Annual General Meeting. Resolution 5 seeks to renew, for a further year, the present authority of the directors to allot ordinary shares up to an aggregate nominal value of £4,473,000 representing 38.4% of the Company's issued capital at 30 November 2000 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 £581,700, representing 5% of the Company's issued share capital at 30 November 2000.

Approved by the Board of Directorsand signedon behalf ofthe Board.

John G Gemmell
Company Secretary
7 December 2000

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 Committe 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 UK Listing Authority, 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

Executive directors' existing share options were granted under the Senior Executive, Executive (ESOP), Paragon 1999 Sharesave and Paragon 2000 Executive 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

report of the board to the shareholders on directors' remuneration

(continued)

Option and Paragon 1999 Sharesave schemes are not dependent upon performance criteria. The Paragon 2000 Executive scheme requires total shareholder return to exceed the average for a range of other companies.

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

7 DECEMBER 2000

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 30 to 53), 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 30 to 53 which have been prepared under the accounting policies set out on pages 34 and 35.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including, as described on page 23, the preparation of the financial statements which are required to be prepared in accordance with applicable United Kingdom law and Accounting Standards.

Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority 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 corporate governance statement on page 27 reflects the Company’s compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority, and we report if it does not. We are not required to consider whether the Board’s statements on internal control cover all the risks and controls or form an opinion on the effectiveness of the corporate governance procedures or the Group’s risk and control procedures.

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 United Kingdom 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 2000 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

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. The Group has adopted the transitional approach for internal control aspects of the Combined Code as set out in the letter from the London Stock Exchange to listed companies dated 27 September 1999. 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

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.

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 20 to 22.

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 17 to 19 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 23.

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.

The directors confirm that they have reviewed the effectiveness of the Group's system of internal financial control for the year to 30 September 2000 and to the date of these financial statements.

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. Throughout the year ended 30 September 2000 the Company has been in compliance with the Code provisions set out in Section 1 of the Combined Code of Corporate Governance issued by the UK Listing Authority.

The Group has adopted the transitional approach for the internal control aspects of the Combined Code as set out in the letter from the London Stock Exchange dated 27 September 1999.

The board confirms that at 30 September 2000 it had established the procedures necessary to implement the guidance 'Internal Controls: Guidance for Directors on the Combined Code'.

the accounts

consolidated profit and loss account

for the year to 30 September 2000

	Notes	2000 £m	1999 £m
Interest receivable		186.4	167.6
Interest payable and similar charges	2	(124.1)	(112.2)
Net interest income		62.3	55.4
Other operating income	3	14.0	12.7
Total operating income		76.3	68.1
Operating expenses		(30.6)	(31.0)
Provisions for losses		(10.2)	(5.8)
Operating profit		35.5	31.3
Profit on sale of fixed assets	4	-	2.5
Profit on ordinary activities before taxation	7	35.5	33.8
Tax charge on profit on ordinary activities	8	(7.0)	(3.5)
Profit on ordinary activities after taxation for the financial year		28.5	30.3
Equity dividend	10	(4.4)	(4.0)
Retained profit		24.1	26.3

	Notes	2000	1999
Earnings per share			
- basic	11	25.1p	26.1p
- diluted	11	24.9p	25.8p

There have been no recognised gains or losses other than the profit for the current and preceding years.

The results for the current and preceding years relate entirely to continuing operations.

note of historical cost profits and losses

for the year to 30 September 2000

	2000 £m	1999 £m
Profit on ordinary activities before taxation	35.5	33.8
Realisation of property revaluation gains of previous years	-	3.9
Historical cost profit on ordinary activities before taxation	35.5	37.7
Historical cost profit for the year after taxation and dividends	24.1	30.2

consolidated balance sheet

at 30 September 2000

		2000		1999 (restated)	
	Notes	£m	£m	£m	£m
Assets employed					
Fixed assets					
Tangible assets	12	3.6		3.6	
Loans to customers	13	1,669.7		1,482.5	
Investment in own shares	14	4.8		2.8	
			1,678.1		1,488.9
Current assets					
Stocks	16	11.5		14.5	
Debtors falling due within one year	17	36.4		22.8	
Investments		50.2		44.1	
Cash at bank and in hand		95.1		103.1	
			193.2		184.5
			1,871.3		1,673.4
Financed by					
Equity shareholders' funds					
Called up share capital	18	11.6		11.6	
Reserves	19	126.1		101.9	
			137.7		113.5
Provisions for liabilities and charges	21		3.7		4.2
Creditors					
Amounts falling due within one year	22	30.5		27.0	
Amounts falling due after more than one year	22	1,699.4		1,528.7	
			1,729.9		1,555.7
			1,871.3		1,673.4

Approved by the Board of Directors on 7 December 2000

Signed on behalf of the Board of Directors

N S Terrington
Chief Executive

N Keen
Finance Director

holding company balance sheet

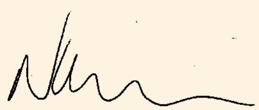
at 30 September 2000

	Notes	2000 £m	2000 £m	1999 £m	1999 £m
Assets employed					
Fixed assets					
Investment in own shares	14	4.8		2.8	
Investment in subsidiary companies	15	60.8		29.7	
			65.6		32.5
Current assets					
Debtors falling due within one year	17	76.8		107.0	
Cash at bank and in hand		0.1		0.1	
			76.9		107.1
			142.5		139.6
Financed by					
Equity shareholders' funds					
Called up share capital	18	11.6		11.6	
Reserves	19	126.1		101.9	
			137.7		113.5
Creditors					
Amounts falling due within one year	22	4.8		6.1	
Amounts falling due after more than one year	22	-		20.0	
			4.8		26.1
			142.5		139.6

Approved by the Board of Directors on 7 December 2000

Signed on behalf of the Board of Directors

N S Terrington
Chief Executive



N Keen
Finance Director

consolidated cash flow statement

for the year to
30 September 2000

	Notes	2000 £m	1999 £m
Net cash inflow from operating activities	24	32.4	33.2
Taxation		(1.3)	(1.3)
Capital expenditure and financial investment	25(a)	(200.6)	(90.4)
Equity dividends paid		(4.2)	(3.8)
		(173.7)	(62.3)
Management of liquid resources	27	(9.9)	23.7
Financing	25(b)	171.5	45.2
(Decrease)/increase in cash in the year		(12.1)	6.6

reconciliation of movement in consolidated shareholders' funds

for the year to
30 September 2000

	2000 £m	1999 £m
Profit attributable to shareholders	28.5	30.3
Dividend	(4.4)	(4.0)
Exercise of share options	0.1	0.4
Net movement in shareholders' funds	24.2	26.7
Opening shareholders' funds	113.5	86.8
Closing shareholders' funds	137.7	113.5

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular policies adopted are described below.

(a) **Accounting convention** The accounts are prepared under the historical cost convention, as adjusted for the revaluation of certain fixed assets.

(b) **Basis of consolidation** The consolidated accounts deal with the accounts of the Company and its subsidiaries made up to 30 September 2000.

(c) **Tangible fixed assets** Tangible fixed assets are stated at cost less accumulated depreciation.

(d) **Depreciation** Depreciation is provided on cost in equal annual instalments over the lives of the assets. The rates of depreciation are as follows:

Short leasehold premises	over the life of the lease
Computer equipment	25% per annum
Furniture, fixtures and office equipment	15% per annum
Motor vehicles	25% per annum

(e) **Loans to customers** Loans are stated at cost less provision for diminution in value after taking into account the existence of insurances, guarantees and indemnities. Cashbacks and discounts are amortised over the redemption fee periods of the related mortgages.

(f) **Fixed assets - investments** The Company's investments in subsidiary companies are valued by the directors at the Company's share of the book value of their underlying net tangible assets. The Company's investments in its own shares are stated at the lower of cost or net realisable value.

(g) **Stocks** Obligations to purchase vehicles from lessors at pre-arranged prices at the end of the lease term are included in stock at the prices to be paid, in accordance with Financial Reporting Standard 5 – 'Reporting the Substance of Transactions', less any provisions to reduce the prices to net realisable value. Other stocks are stated at the lower of cost and net realisable value.

(h) **Current asset investments** Balances shown as current asset investments in the balance sheet comprise short term deposits with banks with maturities of not more than 90 days and more than 7 days. These balances were previously classified as Cash at bank and in hand but are now shown separately in the interests of clearer disclosure. Comparative figures have, therefore, been restated.

(i) **Cash at bank** Balances classified as cash in the balance sheet comprise demand deposits and short term deposits with banks with maturities of not more than 7 days. Previously this balance included amounts now classified as current asset investments (see (h) above) and the comparative figures have, therefore, been restated.

(j) **Goodwill** Goodwill arising from the purchase of subsidiary undertakings, representing the excess of the fair value of the purchase consideration over the fair value of the net assets acquired, has previously been written off on acquisition against Group reserves, as a matter of accounting policy. Such amounts would be charged or credited to the profit and loss account on any future disposal of the business to which they relate.

(k) **Deferred taxation** Deferred taxation is provided on timing differences, arising from the different treatment of items of income and expenditure for accounting and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is expected that tax will arise.

(l) **Provisions** Provisions, being identified liabilities of uncertain timing or amount, are separately disclosed in the balance sheet in accordance with Financial Reporting Standard 12 – 'Provisions, contingent liabilities and contingent assets'.

(m) **Funding costs** Initial costs incurred in arranging funding facilities are amortised over the period of the facility. Unamortised initial costs are deducted from the associated liability. Profits on the early repurchase of loan notes are included within interest payable and similar charges.

(n) **Financial instruments** Derivative instruments utilised by the Group comprise interest rate swap, interest rate cap and forward interest rate agreements. The Group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of the existing underlying exposure of the Group in line with the Group's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

(o) **Other operating income** The turnover and gross profit of Paragon Vehicle Contracts Limited are not derived from the Group's principal activities and the gross profit is therefore included in other operating income. The turnover is shown in note 3.

(p) **Pension costs** The expected cost of providing pensions within the funded defined benefit scheme, as calculated periodically by professionally qualified actuaries using the projected unit method, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(q) **Leases** Rental income and costs under operating leases are credited / charged to the profit and loss account over the period of the leases. Income from hire purchase contracts is accounted for on the actuarial basis. Hire purchase receivables are included within loans to customers at the total amount receivable less interest not yet accrued and provision for doubtful debt.

(r) **Brokers' commissions** Brokers' commissions payable on mortgage loans are charged to the profit and loss account when they are incurred. Brokers' commissions payable on other loans are amortised on a straight-line basis over the period of the loans to which they relate.

2. Interest payable and similar charges

	2000 £m	1999 £m
On asset backed loan notes	92.1	84.8
On bank loans and overdrafts	19.3	17.8
Amortisation of brokers' commissions payable	12.7	9.6
	124.1	112.2

3. Other operating income

Other operating income includes the gross profit of the Group's vehicle contract hire business as follows:

	2000 £m	1999 £m
Turnover	9.4	10.2
Cost of sales	(8.6)	(9.0)
Gross profit	0.8	1.2

Included within other operating income is income from property leases of £1.2m (1999: £1.6m).

4. Profit on sale of fixed assets

Profit on sale of fixed assets in the year ended 30 September 1999 represents the profit on disposal of the Group's freehold property, which was transferred from long leasehold during that year. The revaluation reserve of £3.9m was crystallised on the sale and transferred to distributable reserves. No tax charge arose on the disposal due to the utilisation of capital losses brought forward.

5. Directors' remuneration

The remuneration packages in respect of directors holding office during the year were:

	Salary and fees £000	Benefits in kind £000	Annual bonus £000	Pension contributions £000	2000 Total £000	1999 Total £000
Executive						
J P L Perry	161	2	50	32	245	199
N S Terrington	222	12	150	21	405	414
N Keen	172	3	110	76	361	374
M J R Kelly	-	-	-	-	-	50
Non-executive						
D F Banks	-	-	-	-	-	2
Professor A D Chambers	22	-	-	-	22	22
D A Hoare	20	-	-	-	20	20
F W Hulton	22	-	-	-	22	22
M J R Kelly	20	-	-	-	20	10
C Weiser	20	-	-	-	20	18
2000	659	17	310	129	1,115	1,131
1999	677	23	325	106	1,131	

Mr J P L Perry is the Chairman and Mr N S Terrington is the highest paid director.

Directors' pensions

Mr N S Terrington and Mr N Keen were members of the Group defined benefit pension scheme during the year, from which their pension entitlement was as follows:

	Increase in accrued pension during year excluding any increase for inflation	Transfer value of increase	Accumulated total accrued pension at 30 September 2000	Accumulated total accrued pension at 30 September 1999
	£	£	£	£
N S Terrington	5,964	43,073	53,537	52,954
N Keen	3,117	34,128	28,560	25,167

The pension entitlement shown is that which would be paid annually on retirement based on services to 30 September 2000.The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions. Members of the Plan have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

Also included in pension contributions is £68,000 (1999: £65,000) paid in respect of further pension provision for Mr N Keen. Contributions in respect of Mr J P L Perry were paid into his personal pension scheme.

6. Employees

The average number of persons (including directors) employed by the Group during the year was 623 (1999: 619). Staff costs incurred during the year in respect of these employees were:

	2000	1999
	£m	£m
Wages and salaries	14.2	13.3
Social Security costs	1.1	1.0
Other pension costs	0.8	0.8
	16.1	15.1

The most recent actuarial valuation of the Group Pension Scheme was completed as at 1 April 1998 using the projected unit method, at which date the market value of the assets was £9.7m. The principal assumption used in the latest valuation was that the annual return on investment would be 2.0 per cent higher than the annual increase in salaries. The valuation revealed that the actuarial value of assets was sufficient to cover 100 per cent of the benefits that had accrued to members after allowing for future increases in earnings.

7. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is after charging:

	2000 £m	1999 £m
Depreciation	1.3	1.6
Auditors' remuneration (Group)		
- audit services	0.3	0.3
- non audit services	0.3	0.4
Hire of plant and machinery	0.6	0.3
Property rents payable	3.4	2.1

The Company's audit fee was £16,400 (1999: £18,900).

8. Tax charge on profit on ordinary activites

	2000 £m	1999 £m
UK Corporation Tax at 30% (1999: 30.5%)		
Current Tax	(9.1)	-
Write-back of Advance Corporation Tax	2.8	1.4
Deferred tax (note 21)	(0.7)	(5.0)
	(7.0)	(3.6)
Prior year adjustments		
Current tax	-	0.1
Tax charge on profit on ordinary activities	(7.0)	(3.5)

The taxation charge has been reduced by £3.6m (1999: £5.9m) in respect of movements in partially provided deferred tax assets including unrelieved Advance Corporation Tax. The tax charge in 1999 was further reduced by £0.8m as the profit on disposal of fixed assets has been offset against capital losses brought forward in Group companies. There are losses carried forward to offset against future income of appropriate Group companies of £3.0m (1999: £1.0m). In addition the Group has capital losses in excess of £65.0m (1999: £65.0m) which are available to offset against future capital gains of the Group.

9. Profit attributable to members of The Paragon Group of Companies PLC

The holding company's profit after tax for the financial year amounted to £27.2m (1999: profit of £30.2m). A separate profit and loss account has not been prepared for the holding company under the provisions of Section 230 of the Companies Act 1985.

10. Dividend

	2000 Per share	1999 Per share	2000 £m	1999 £m
Equity dividend on ordinary shares				
Interim paid	1.7p	1.5p	2.0	1.7
Proposed final	2.1p	1.9p	2.4	2.3
	3.8p	3.4p	4.4	4.0

11. Earnings per share

Earnings per ordinary share is calculated as follows:

		2000	1999
Profit for the year		£28,500,000	£30,300,000
Basic weighted average number of ordinary shares ranking for dividend during the year		113,308,398	115,955,548
Dilutive effect of the weighted average number of share options in issue during the year		1,260,602	1,066,720
Diluted weighted average number of ordinary shares ranking for dividend during the year		114,569,000	117,022,268
Earnings per ordinary share	- basic	25.1p	26.1p
	- diluted	24.9p	25.8p

12. Tangible fixed assets

	Short leasehold premises £m	Plant and machinery £m	Total £m
Cost			
At 1 October 1999	1.1	8.7	9.8
Additions	0.3	1.4	1.7
Disposals	-	(0.9)	(0.9)
At 30 September 2000	1.4	9.2	10.6
Accumulated depreciation			
At 30 September 1999	0.7	5.5	6.2
Charge for the year	-	1.3	1.3
On disposals	-	(0.5)	(0.5)
At 30 September 2000	0.7	6.3	7.0
Net book value			
At 30 September 2000	0.7	2.9	3.6
At 30 September 1999	0.4	3.2	3.6

13. Loans to customers

	2000 £m	1999 £m
Cost		
At 1 October 1999	1,482.5	1,379.2
Additions	509.4	415.0
Other debits	177.0	156.6
Repayments and redemptions	(499.2)	(468.3)
At 30 September 2000	1,669.7	1,482.5

Included in loans to customers are £128.3m (1999: £72.9m) of hire purchase receivables. The aggregate rentals receivable during the year in respect of hire purchase contracts were £15.1m (1999: £8.2m). The cost of assets acquired by the Group for the purposes of letting under hire purchase contracts amounted to £99.3m (1999: £67.6m).

Other debits includes primarily interest receivable on loans outstanding and movements on provisions against these loans.

14. Investment in own shares

	2000 £m	1999 £m
Shares held by the trustee of the share option schemes	4.8	2.8

All of the shares are held in trust for the benefit of employees exercising their options under the Company's share option schemes. The trustee's costs are included in the operating expenses of the Company. At 30 September 2000, the trust held 3,848,253 shares (1999: 2,585,277) with a nominal value of £384,825 (1999: £258,528) and a market value of £5,810,862 (1999: £5,429,082). Options were outstanding against 3,733,913 of these shares at 30 September 2000. The dividends on these shares have not been waived.

15. Investments in subsidiary companies

	2000 £m	1999 £m
Shares in Group companies		
At 1 October 1999	19.7	1.7
Additions during the year	0.1	10.2
Revaluation		
Credited to the profit and loss account	39.7	7.7
Credited to the revaluation reserve	1.3	0.1
	60.8	19.7
Loans to Group companies		
At 1 October 1999	10.0	2.1
Additions during the year	21.3	10.0
Repayments during the year	(10.0)	(5.0)
Revaluation		
(Charged)/credited to the profit and loss account	(21.3)	2.9
	-	10.0
At 30 September 2000	60.8	29.7

15. Investments in subsidiary companies (continued)

Principal operating subsidiaries comprise

	Holding	Principal Activity
Direct subsidiaries of The Paragon Group of Companies PLC		
Paragon Finance PLC	100%	Residential mortgages and asset administration
Homer Finance (No. 3) PLC	100%	Residential mortgages
Paragon Mortgages Limited	100%	Residential mortgages
Homeloans (No. 1) PLC	100%	Residential mortgages
Homeloans (No. 2) PLC	100%	Residential mortgages
Homeloans (No. 3) PLC	100%	Residential mortgages
Finance for People (No. 1) PLC	100%	Residential mortgages
Finance for People (No. 2) PLC	100%	Residential mortgages
Finance for People (No. 3) PLC	100%	Unsecured and car loans
Finance for People (No. 4) PLC	74%	Residential mortgages
Paragon Vehicle Contracts Limited	100%	Vehicle fleet management
Paragon Car Finance Limited	100%	Vehicle finance
Paragon Dealer Finance Limited	100%	Vehicle finance
Paragon Personal Finance Limited	100%	Unsecured lending
Paragon Mortgages (No. 1) PLC	74%	Residential mortgages
Paragon Mortgages (No. 2) PLC	74%	Residential mortgages
Paragon Mortgages SA	100%	Residential mortgages
Paragon Mortgages (No. 2) SA	100%	Residential mortgages
Paragon Mortgages (No. 3) SA	100%	Residential mortgages
Subsidiary of Paragon Mortgages Limited		
Paragon Second Funding Limited	100%	Residential mortgages and loan and vehicle finance

The issued share capital of all subsidiaries consists of ordinary share capital, except that Finance for People (No. 4) PLC, Paragon Mortgages (No. 1) PLC and Paragon Mortgages (No. 2) PLC have additional preference share capital held by the Group. The financial year end of all of the above companies is 30 September. They are registered and operate in England and Wales, except for Paragon Mortgages SA, Paragon Mortgages (No. 2) SA and Paragon Mortgages (No. 3) SA which are registered and operate in Luxembourg.

The minority interests in Finance for People (No. 4) PLC, Paragon Mortgages (No. 1) PLC and Paragon Mortgages (No. 2) PLC are not material.

16. Stocks

	2000 £m	1999 £m
Residual purchase obligations	10.9	12.1
Vehicles on extended hire or held for resale	0.6	2.4
	11.5	14.5

17. Debtors

	The Group		The Company	
	2000	1999	2000	1999
	£m	£m	£m	£m
Amounts falling due within one year				
Amounts owed by Group companies	-	-	71.6	104.3
Tax debtors	2.5	1.8	0.1	0.1
Other debtors	5.2	5.5	-	0.2
Prepayments and accrued income	28.7	15.5	5.1	2.4
	36.4	22.8	76.8	107.0

18. Called-up share capital

	2000	1999
	£m	£m
Authorised:		
175,000,000 (1999: 150,000,000) ordinary shares of 10p each	17.5	15.0
Allotted and paid-up:		
116,347,335 (1999: 116,206,294) ordinary shares of 10p each	11.6	11.6

During the year the authorised share capital of the company was increased by £2.5m by the creation of 25,000,000 new ordinary shares of 10p each. During the year 130,613 ordinary shares (£ 13,061 par value) were issued for £127,126 and a further 10,428 (£ 1,043 par value) were issued for £9,099. These issues were made under the executive and employee share option schemes, respectively.

19. Reserves

(a) The Group

	Share premium account	Merger reserve	Profit and loss account	Total
	£m	£m	£m	£m
Balance at 1 October 1999	62.4	(70.2)	109.7	101.9
Share options exercised	0.1	-	-	0.1
Retained profit for the year	-	-	24.1	24.1
Balance at 30 September 2000	62.5	(70.2)	133.8	126.1

The cumulative amount of goodwill on acquisitions written off to reserves is £56.4m (1999: £56.4m). This balance has been offset against the profit and loss account to ensure compliance with Financial Reporting Standard 10 – 'Goodwill and Intangible Assets'.

(b) The Company

	Share premium account	Revaluation reserve	Profit and loss account	Total
	£m	£m	£m	£m
Balance at 1 October 1999	62.4	0.3	39.2	101.9
Revaluation of investments in subsidiaries	-	1.3	-	1.3
Share options exercised	0.1	-	-	0.1
Retained profit for the year	-	-	22.8	22.8
Balance at 30 September 2000	62.5	1.6	62.0	126.1

20. Share option schemes

Options are outstanding under the executive share option and the all employee share option schemes to purchase 9,682,270 (1999: 7,764,738) ordinary shares of 10p each as follows:

Number	Period exercisable	Price
3,130	07/12/1996 to 07/12/2000	86.30p
62,570	07/12/1996 to 07/12/2000	69.52p
5,192	02/02/1997 to 02/02/2001	196.57p
37,040	02/02/1997 to 02/02/2001	139.84p
1,231,035	13/03/1998 to 13/03/2005	97.33p
50,056	31/03/1998 to 31/03/2005	87.26p
306,330	14/06/1998 to 14/06/2005	103.56p
32,296	04/07/1998 to 04/07/2005	97.33p
49,553	06/02/1999 to 06/02/2003	100.68p
38,866	21/06/1999 to 21/06/2003	103.08p
1,225,290	02/12/1999 to 02/12/2003	105.48p
104,280	12/06/2000 to 12/06/2004	162.05p
125,136	16/06/2000 to 16/06/2004	160.62p
20,856	16/06/2000 to 16/06/2004	105.48p
1,143,000	31/03/2001 to 31/03/2008	218.00p
722,000	31/03/2001 to 31/03/2005	218.00p
250,000	30/09/2001 to 30/09/2008	162.50p
1,420,000	11/01/2002 to 11/01/2009	147.50p
100,854	23/03/2002 to 22/09/2002	164.40p
34,680	23/03/2004 to 22/09/2004	164.40p
100,000	27/09/2002 to 27/09/2006	209.50p
595,000	17/02/2003 to 17/02/2010	147.50p
1,240,000	26/05/2003 to 26/05/2007	148.50p
522,649	21/06/2003 to 20/12/2003	120.64p
262,457	21/06/2005 to 20/12/2005	120.64p

A number of the above options were granted to former employees whose rights terminate at the later of twelve months following redundancy or forty-two months after the issue of the options.

20. Share option schemes (continued)

Details of individual options held by the directors at 30 September 1999 and 30 September 2000:

Date from which exercisable	Expiry date	Option price	J P L Perry	N S Terrington	N Keen	M J R Kelly
Options held at 30 September 1999:						
07/12/1996	07/12/2000	69.52p	25,028	25,028	12,514	-
07/12/1996	07/12/2000	86.30p	1,252	1,252	626	-
02/02/1997	02/02/2001	196.57p	-	-	-	3,365
13/03/1998*	13/03/2005	97.33p	417,646	261,226	130,613	-
14/06/1998*	14/06/2005	103.56p	-	104,280	202,050	-
02/12/1999	02/12/2003	105.48p	260,700	260,700	234,630	-
31/03/2001*	31/03/2008	218.00p	120,000	255,000	240,000	-
31/03/2001	31/03/2005	218.00p	80,000	170,000	160,000	-
11/01/2002*	11/01/2009	147.50p	-	300,000	250,000	-
23/03/2002	22/09/2002	164.40p	5,892	-	11,784	-
23/03/2004	22/09/2004	164.40p	-	10,264	-	-
			910,518	1,387,750	1,242,217	3,365
Options lapsed in the year:						
23/03/2002	22/09/2002	164.40p	5,892	-	11,784	-
23/03/2004	22/09/2004	164.40p	-	10,264	-	-
			904,626	1,377,486	1,230,433	3,365
Options granted in the year:						
17/02/2003†	17/02/2010	147.50p	100,000	100,000	100,000	-
26/05/2003	26/05/2007	148.50p	200,000	200,000	200,000	-
21/06/2003	20/12/2003	120.64p	8,030	-	16,060	-
21/06/2005	20/12/2005	120.64p	-	13,987	-	-
At 30 September 2000			1,212,656	1,691,473	1,546,493	3,365

At 30 September 2000 The Paragon Group of Companies PLC share price was 151.0p and the range during the year then ended was 121.5p to 223.5p.

* The exercise of these options is conditional upon earnings per share increasing at a rate in excess of the retail price index over the three preceding financial years. The initial earnings per share is adjustable, in certain circumstances, subject to Inland Revenue approval.

† The exercise of these options is conditional upon the Company's total shareholder return exceeding the average of that of a specified group of comparator companies.

Options are granted to directors and senior employees from time to time, on the basis of performance and at the discretion of the Remuneration Committee. Further details of the share option schemes are given in the Report of the Board to the shareholders on directors' remuneration on page 20.

21. Provisions for liabilities and charges

(a) The Group

	Deferred taxation £m	Other provisions £m	Total £m
Provision at 1 October 1999	1.4	2.8	4.2
Current year charge/(credit)	0.7	(0.6)	0.1
Utilised in the year	-	(0.6)	(0.6)
Provision at 30 September 2000	2.1	1.6	3.7

The other provisions include committed future lease costs for properties no longer occupied by the Group and costs associated with the relocation of the operations of the personal finance business to the Group's head office. These provisions are expected to be utilised within five years.
The potential liability for deferred taxation and the amounts for which provision has been made are:

	2000		1999	
	Potential liability £m	Provided £m	Potential liability £m	Provided £m
Other timing differences	2.1	2.1	1.4	1.4

(b) The Company

There is no potential liability for deferred tax in the holding company either at 30 September 2000 or 30 September 1999.

22. Creditors

	The Group		The Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Amounts falling due within one year				
Bank loans and overdrafts	1.0	0.7	-	-
Amounts owed to Group companies	-	-	2.3	2.1
Proposed dividend	2.4	2.2	2.4	2.2
Corporation tax	5.7	-	-	-
Accruals	21.4	24.1	0.1	1.8
	30.5	27.0	4.8	6.1
Amounts falling due after more than one year				
Asset backed loan notes	1,294.8	1,310.9	-	-
Bank loans	397.4	209.9	-	20.0
Accruals	7.2	7.9	-	-
	1,699.4	1,528.7	-	20.0

A maturity analysis of the above borrowings and further details of asset backed loan notes and bank loans are given in note 23.

23. Financial instruments

The Group's operations are financed principally by floating rate, asset-backed loan notes and, to a lesser extent, by a mixture of share capital, retained earnings and bank borrowings.

The Group issues financial instruments to finance its lending operations and uses derivative financial instruments to hedge interest rate risk arising from fixed rate lending. In addition, various financial instruments, for example debtors, prepayments and accruals, arise directly from the Group's operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The principal risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. The Board operates through the Asset and Liability Committee to review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year and since the year end and the position disclosed below is materially similar to that existing throughout the year.

Credit risk

The Group's business objectives rely on maintaining a high-quality customer base and it places strong emphasis on good credit management, both at the time of underwriting a new loan, where strict lending criteria are applied, and in the collections process.

First mortgages and secured loans are secured by charges over residential properties in England and Wales, or similar Scottish securities. Car loans are secured by the financed vehicle.

Despite this security, in assessing credit risk, an applicant's ability to repay the loan remains the overriding factor in the decision to lend.

In order to control credit risk relating to counterparties to the Group's financial instruments, the Asset and Liability Committee determines which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits.

Liquidity risk

The Group's assets are principally financed by asset backed loan notes issued through the securitisation process. Securitisation substantially reduces the Group's liquidity risk by matching the maturity profile of the Group's funding to the profile of the assets to be funded. This is possible as investors in the capital markets will accept maturities of anywhere between one month and forty years.

The asset backed loan notes are secured on portfolios comprising variable and fixed rate mortgages or personal and car loans, and are redeemable in part from time to time, but such redemptions are limited to the net capital received from borrowers in respect of the underlying assets. There is no requirement for the Group to make good any shortfall out of general funds. It is likely that a substantial proportion of these notes will be repaid within five years.

Interest is payable on the notes at various rates between 0.12% and 1.30% above the London Interbank Offered Rate ('LIBOR') for three month sterling products. During the year, Group companies issued £185.0m of mortgage backed floating rate notes at par.

During the year the Group has raised subordinated bank loans secured against various of its securitised portfolios. These loans are secured on the assets within the portfolio concerned, but are subordinated to the asset backed loan notes. Interest is payable on these loans at a rate of 1.25% above LIBOR. These loans are repayable out of receipts from borrowers in the same way as the asset backed loan notes. Included within bank loans at 30 September 2000 is £12.1m (1999 : £nil) in respect of such loans.

23. Financial instruments (continued)

Assets are typically securitised within twelve months of origination. Until that point new loans are funded using a £300.0m (1999: £300.0m) committed sterling facility provided to Paragon Second Funding Limited by a consortium of banks. £270.8m (1999: £127.5m) is included in bank loans in respect of drawings on this facility. This facility is secured on all the assets of Paragon Second Funding Limited, Paragon Car Finance Limited, Paragon Personal Finance Limited and Paragon Dealer Finance Limited. As with the asset backed loan notes, repayments of this facility are restricted to the amount of principal cash realised from the funded assets. Although the facility expires in 2044 it is likely that substantial repayments will be made within the next five years. This facility remains available for further drawings until January 2002.

In addition to these borrowings the Group has a committed corporate syndicated sterling bank facility of £140.0m (1999: £96.0m), used to provide working capital for the Group. Included in bank loans are drawings of £114.5m (1999: £62.4m) made by Paragon Finance PLC and drawings of £nil (1999: £20.0m) made by the Company under this facility. The available facility reduces by instalments on 30 September 2003 and every six months thereafter until final repayment which is due on 31 March 2005. The facility is secured on all the assets of the Company and Paragon Finance PLC. The present facility replaced an earlier £96m facility, which was due to expire in 2002, during the year. Interest on the bank facilities is payable at various rates between 0.33% and 1.15% above LIBOR. The undrawn amounts on the two bank facilities at 30 September 2000 and 30 September 1999 are set out below.

	2000 £m	1999 £m
Undrawn committed facilities for which repayment would fall due:		
In one year or less	-	12.0
In more than one year but not more than two years	29.0	1.0
In more than two years	24.0	172.0
	53.0	185.0

Cash received in respect of loan assets is not immediately available for Group purposes, due to the terms of the Paragon Second Funding Limited facility and the securitisations. Included within Cash at bank and in hand and Investments at 30 September 2000 is £132.8m subject to such restrictions (1999: £132.7m).

The securitisation process and the terms of the Paragon Second Funding Limited loan facility effectively remove any liquidity risk from the funding of the Group's loan assets. It remains to ensure that sufficient funding is available to provide capital support for new loans and working capital for the Group. This responsibility rests with the Asset and Liability Committee which sets liquidity policy and uses detailed cash flow projections to ensure that an adequate level of liquidity is available at all times.

Set out below is the maturity profile of the Group's financial liabilities at 30 September 2000 and 30 September 1999;

	Over-drafts	Bank loans	Asset backed loan notes	Other	2000 Total	Over-drafts	Bank loans	Asset backed loan notes	Other	1999 Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities falling due										
In one year or less, or on demand	1.0	-	-	29.5	30.5	0.7	-	-	26.3	27.0
In more than one year, but not more than two years	-	-	-	4.3	4.3	-	10.9	-	3.9	14.8
In more then two years but not more than five years	-	126.6	-	2.9	129.5	-	71.5	-	4.0	75.5
In more than five years	-	270.8	1,294.8	-	1,565.6	-	127.5	1,310.9	-	1,438.4
	1.0	397.4	1,294.8	36.7	1,729.9	0.7	209.9	1,310.9	34.2	1,555.7

Interest rate risk

The Group's policy is to maintain floating rate liabilities and match these with floating rate assets, hedging fixed rate assets by the use of interest rate swap or cap agreements.

The rates of interest payable on the loan facilities and on asset backed loan notes issued in the securitisation process are reset quarterly on the basis of LIBOR. The interest rates charged on the Group's variable rate loan assets are determined by reference to, inter alia, the Group's funding costs and the rates being charged on similar products in the market. Generally this ensures the matching of changes in interest rates on the Group's loan assets and borrowings and any exposure arising on the interest rate resets is relatively short term. Forward rate agreements are used to hedge against any perceived risk of temporary increases in LIBOR rates at month ends.

In part, the Group's interest rate hedging objectives are achieved by the controlled mismatching of the dates on which instruments mature, redeem or have their interest rates reset. The table overleaf summarises these repricing mismatches. For the purposes of the table, loan assets, borrowings and derivatives are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity dates. For those fixed rate loan assets where the customer has contracted to make regular repayments of both capital and interest, the assets have been allocated across the time bands in the table by reference to the contracted repayments. The analysis takes no account of early terminations which are likely to occur in practice. In determining the amount of hedging required, the Group makes assumptions about the level of regular capital repayments and early terminations of its loan assets. The actual interest rate sensitivity will therefore be determined by reference to subsequent customer and management decisions and is expected to be less sensitive than shown.

The table includes short term creditors and debtors.

23. Financial instruments (continued)

At 30 September 2000	3 months or less £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non interest bearing £m	Total £m
Cash at bank and in hand	95.1	-	-	-	-	-	95.1
Investments	50.2	-	-	-	-	-	50.2
Loans to customers	999.4	25.6	94.8	402.4	147.5	-	1,669.7
Investment in own shares	-	-	-	-	-	4.8	4.8
Other assets	-	-	-	-	-	51.5	51.5
Total assets	1,144.7	25.6	94.8	402.4	147.5	56.3	1,871.3
Provisions	-	-	-	-	-	(3.7)	(3.7)
Bank loans and overdrafts	(398.4)	-	-	-	-	-	(398.4)
Asset backed loan notes	(1,294.8)	-	-	-	-	-	(1,294.8)
Other liabilities	-	-	-	-	-	(36.7)	(36.7)
Shareholders' funds	-	-	-	-	-	(137.7)	(137.7)
Total liabilities	(1,693.2)	-	-	-	-	(178.1)	(1,871.3)
Off balance sheet items	469.6	(19.1)	(87.4)	(311.7)	(51.4)	-	-
Interest rate repricing gap	(78.9)	6.5	7.4	90.7	96.1	(121.8)	-
Cumulative gap	(78.9)	(72.4)	(65.0)	25.7	121.8	-	-
At 30 September 1999							
Cash at bank and in hand (restated)	103.1	-	-	-	-	-	103.1
Investments (restated)	44.1	-	-	-	-	-	44.1
Loans to customers	934.5	15.1	49.1	393.6	90.2	-	1,482.5
Investment in own shares	-	-	-	-	-	2.8	2.8
Other assets	-	-	-	-	-	40.9	40.9
Total assets	1,081.7	15.1	49.1	393.6	90.2	43.7	1,673.4
Provisions	-	-	-	-	-	(4.2)	(4.2)
Bank loans and overdrafts	(210.6)	-	-	-	-	-	(210.6)
Asset backed loan notes	(1,310.9)	-	-	-	-	-	(1,310.9)
Other liabilities	-	-	-	-	-	(34.2)	(34.2)
Shareholders' funds	-	-	-	-	-	(113.5)	(113.5)
Total liabilities	(1,521.5)	-	-	-	-	(151.9)	(1,673.4)
Off balance sheet items	454.2	(16.0)	(46.1)	(349.5)	(42.6)	-	-
Interest rate repricing gap	14.4	(0.9)	3.0	44.1	47.6	(108.2)	-
Cumulative gap	14.4	13.5	16.5	60.6	108.2	-	-

'Off balance sheet items' shows the notional principal amount of swap agreements. Included within 'no more than 3 months' are £52.7m (1999: £38.1m) of capped rate mortgages hedged by interest rate cap agreements which reset quarterly.

23. Financial instruments (continued)

The Asset and Liability Committee monitors the interest rate risk exposure on the Group's loan assets and asset backed loan notes and ensures compliance with the requirements of the trustees in respect of the Group's securitisations.

All derivative contracts are accounted for as hedges. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. Set out below is an analysis of these unrecognised gains and losses.

	2000 Gains £m	2000 Losses £m	2000 Total net gains/(losses) £m	1999 Gains £m	1999 Losses £m	1999 Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 1 October 1999	5.5	(1.9)	3.6	0.1	(7.7)	(7.6)
Gains and losses arising in previous years that were recognised in the year	-	0.2	0.2	-	-	-
Gains and losses arising before 1 October 1999 that were not recognised in the year	5.5	(1.7)	3.8	0.1	(7.7)	(7.6)
Gains and losses arising in the year that were not recognised in the year	(3.9)	(2.6)	(6.5)	5.4	5.8	11.2
Unrecognised gains and losses on hedges at 30 September 2000	1.6	(4.3)	(2.7)	5.5	(1.9)	3.6
Of which						
Gains and losses expected to be realised in the year to 30 September 2001	0.6	(1.1)	(0.5)	1.2	(0.6)	0.6
Gains and losses expected to be realised in the year to 30 September 2002 or later	1.0	(3.2)	(2.2)	4.3	(1.3)	3.0

Currency risk

The Group has no material exposure to foreign currency risk.

Fair values of financial assets and financial liabilities

Fair values have been determined for all derivatives, listed securities and any other financial assets and liabilities for which an active and liquid market exists. The fair values of cash at bank and in hand, bank loans and overdrafts and asset backed loan notes are not materially different from their book values because all the assets mature within three months of the year end and the interest rates charged on financial liabilities reset on a quarterly basis.

Set out below is a comparison by category of book values and fair values of the Group's derivative financial instruments as at 30 September 2000 and 30 September 1999.

	2000 Book value £m	2000 Fair value £m	1999 Book value £m	1999 Fair value £m
Derivative financial instruments held to manage the interest rate profile				
Swaps	-	(2.3)	-	2.3
Caps	1.5	1.1	1.4	2.7

The fair values of the interest rate swaps and caps have been determined by reference to prices available from the markets on which these instruments are traded.

24. Reconciliation of operating profit to net cash flows from operating activities

	2000 £m	1999 £m
Operating profit	35.5	31.3
Provision for losses	10.2	5.8
Depreciation	1.3	1.6
Decrease in stock	0.8	1.1
Increase in debtors	(12.9)	(6.9)
(Decrease)/increase in creditors	(2.5)	0.3
Net cash inflow from operating activities	32.4	33.2

25. Analysis of cash flows for headings netted in the cash flow statement

	2000 £m	1999 £m
(a) Capital expenditure and financial investment		
Net increase in loans to customers	(197.3)	(109.5)
Expenditure on other fixed assets	(1.7)	(1.6)
Proceeds from sale of freehold property (note 4)	-	20.4
Proceeds from sales of other fixed assets	0.4	0.3
Acquisition of own shares	(2.0)	-
	(200.6)	(90.4)
(b) Financing		
Exercise of share options	0.1	0.4
Increase in loans from banks and others (note 27)	171.4	44.8
	171.5	45.2

26. Reconciliation of net cash flow to movement in net debt

	2000 £m	1999 £m
(Decrease)/increase in cash in year	(12.1)	6.6
Cash inflow from increase in debt	(171.4)	(44.8)
Cash movement from change in liquid resources	9.9	(23.7)
Movement in net debt in year	(173.6)	(61.9)
Net debt at 1 October 1999	(1,374.3)	(1,312.4)
Net debt at 30 September 2000	(1,547.9)	(1,374.3)

27. Analysis of net debt

	At 1 October 1999 £m	Cash flows £m	At 30 September 2000 £m
Cash in hand at bank	82.7	(11.8)	70.9
Overdrafts	(0.7)	(0.3)	(1.0)
		(12.1)	
Debt due after one year	(1,520.8)	(171.4)	(1,692.2)
Other liquid resources	64.5	9.9	74.4
Total	(1,374.3)	(173.6)	(1,547.9)

Other liquid resources comprise term deposits with UK banks.

28. Events occuring after the balance sheet date

On 16 October 2000, the Company acquired the entire share capital of Colonial Finance (UK) Limited, a consumer loan company, from the Commonwealth Bank of Australia. The consideration is to be finalised on the basis of completion accounts, but expected to be in the region of £2.0m.

On 23 November 2000, the Group issued £195.0m of asset backed floating rate notes at par.

29. Capital commitments

There were no capital commitments (1999: £nil) contracted but not provided for.

30. Financial commitments

At 30 September 2000 the Group had commitments to make annual payments under operating leases which expire as follows:

	2000 £m	1999 £m
Plant and machinery		
Within one year	0.1	-
Between two and five years	0.4	0.4
Land and buildings		
Between two and five years	0.5	0.2
Over five years	3.5	3.4
	4.5	4.0

notice of annual general meeting

To all shareholders

NOTICE IS HEREBY GIVEN that the twelfth Annual General Meeting of The Paragon Group of Companies PLC will be held at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ on 1 February 2001 at 10.30 a.m. for the following purposes:

As ordinary business

1 To receive and consider the Company's Accounts for the year ended 30 September 2000 and the Reports of the Directors and the Auditors

2 To declare a dividend

3 To re-appoint as directors (a) Mr M J R Kelly (b) Mr D A Hoare*

4 To re-appoint Deloitte & Touche as Auditors and to authorise the directors to fix their remuneration.

*Remuneration Committee member

As special business

To consider and, if thought fit, to pass resolution 5 as an ordinary resolution and resolution 6 as a special resolution:

Ordinary Resolution

5 'THAT the Board be and it is hereby generally and unconditionally authorised (in substitution for all subsisting authorities to the extent unused) to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £4,473,000 PROVIDED THAT this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (unless previously revoked or varied by the Company in general meeting) save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.'

Special Resolution

6 'THAT, subject to the passing of the previous resolution, the Board be and it is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to:

(a) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders and in favour of all holders of any other class of equity security in accordance with the rights attached to such class where the equity securities respectively attributable to the interests of all such persons on a fixed record date are proportionate (as nearly as may be) to the respective numbers of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising in any overseas territory, the requirements of any regulatory body or any stock exchange in any territory or any other matter whatsoever); and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £581,700

and shall expire upon the renewal of this power or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.'

By order of the Board

John G Gemmell

Company Secretary

Registered and Head Office:
St Catherine's Court
Herbert Road
Solihull
West Midlands
B91 3QE

7 December 2000

Registered in England No. 2336032

A member entitled to attend and vote at this meeting may appoint a proxy to attend on his behalf and, on a poll, to vote instead of such member. A proxy need not also be a member of the Company. A proxy form is enclosed for use in connection with the meeting. Proxy forms and any power of attorney or other written authority under which they are executed (or an office or notarially certified copy thereof) should be lodged with the Registrar of the Company at the address shown on the reverse of the proxy form not less than forty-eight hours before the time appointed for the holding of the meeting.

The appointment of a proxy will not preclude a shareholder from attending and voting at the meeting.

The register of directors' interests and copies of directors' service contracts will be available for inspection during normal business hours on any weekday (Saturday and public holidays excepted) at the Registered Office of the Company from the date of this notice until the date of the Annual General Meeting and at the place of meeting from 10.00a.m. until the conclusion of the meeting. The Report and Accounts have been sent to the Company's shareholders. Biographical details of all directors are provided on page 16.

company information

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Chartered Accountants
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Solicitors

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Registrars and Transfer Office

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