The Paragon Group of Companies PLC

annual report & accounts 2001

company values

commitment

humour

respect

integrity

professionalism

creativity

teamwork

Contents

operating profit
£40.5m

earnings per share
28.5p

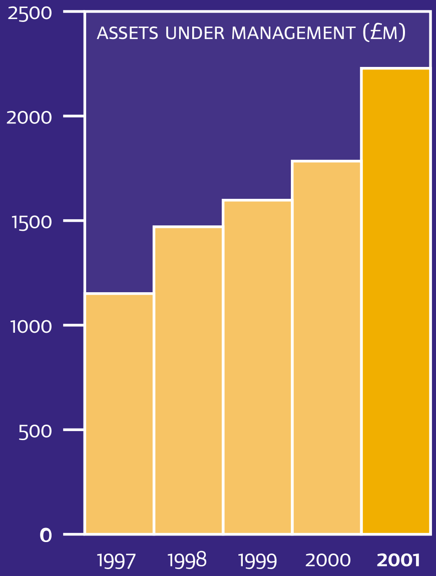
dividend per share
4.2p

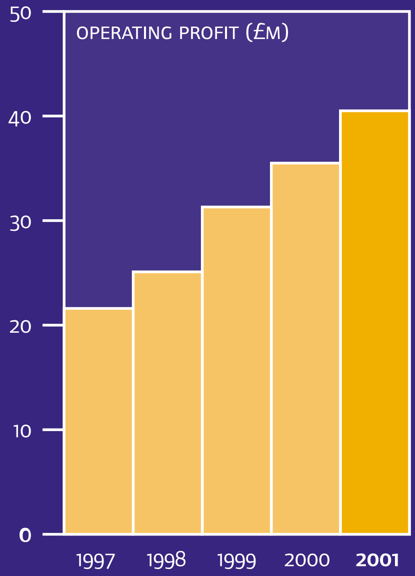
financial highlights

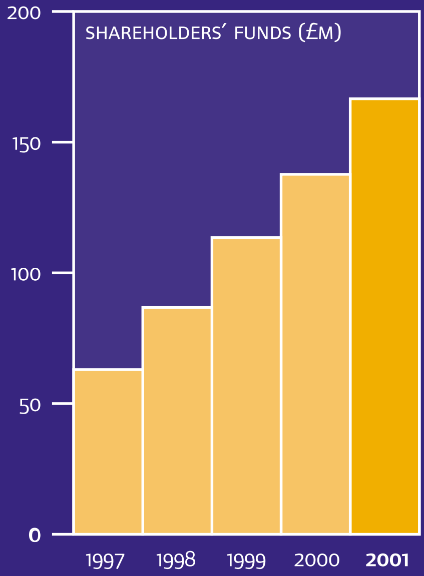
	2001 £M	2000 £M	1999 £M	1998 £M	1997 £M
Profit before taxation	**40.5**	35.5	33.8	25.1	21.6
Profit after taxation	**32.3**	28.5	30.3	23.9	21.6
Assets under management	**2,228.4**	1,784.4	1,597.7	1,470.6	1,151.1
Shareholders' funds	**166.1**	137.7	113.5	86.8	63.0

	2001	2000	1999	1998	1997
Earnings per share					
- basic	**28.5p**	25.1p	26.1p	22.4p	23.4p
- diluted	**27.8p**	24.9p	25.8p	22.1p	23.3p
Dividend per ordinary share	**4.2p**	3.8p	3.4p	3.0p	2.7p

The basic and diluted earnings per share figures for 1998 and 1997 have been adjusted following the implementation of Financial Reporting Standard 14 – 'Earnings per share'.
The earnings per share in 1997 has been adjusted to reflect the rights issue during 1998.







chairman's statement

The Group has performed strongly during the year ended 30 September 2001, with good growth in the mortgage and consumer lending businesses supplemented by the acquisition of a point of sale retail credit business. Profit before tax has increased by 14.1% to £40.5 million from £35.5 million and earnings per share, at 28.5p, increased from last year's level of 25.1p. In view of the continuing growth in profits your Board is pleased to propose, subject to approval at the Annual General Meeting, the payment on 1 February 2002 of an increased final dividend of 2.3p per share which, when added to the interim dividend of 1.9p paid on 31 July, gives a total dividend of 4.2p per share for the year, an increase of 10.5% on last year's dividend of 3.8p.

Progress review and strategy

Each of our business divisions has developed well despite increasing economic concerns as the year has progressed and over the past year we have deliberately adjusted our lending mix in favour of higher quality lending areas. Thus we have seen strong growth in our buy-to-let lending, which we consider has significant defensive qualities, and also in the more credit-robust areas of consumer lending, such as secured personal loans. Where appropriate elsewhere, we have tightened criteria, removed unprofitable introducers and increased margins to provide the best balance of products for growth of the business going forward.

Paragon Mortgages increased advances by 56% from the previous year. The key development in this business during the year was the decision to focus the business entirely on the residential investment sector. Buy-to-let mortgages had already formed the majority of the new business being written at the beginning of the financial year but this was formalised in March when all owner-occupied lending ceased.

The outlook for buy-to-let looks positive: increasing rental demand, low returns on equities and low savings rates continue to ensure strong demand for well chosen and managed rented property and, as a leading lender in this market, strong demand for Paragon's product.

The Consumer Finance division, which operates in three principal areas of the consumer finance market, retail finance, personal finance and car finance, also increased advances by 56% in the year.

Paragon Retail Finance, formerly Colonial Finance (UK) Limited, made good progress over the period in what have been difficult market conditions, with business volumes being maintained since the year end. Since the acquisition of Colonial, considerable work has been undertaken to develop a full understanding of the needs of the division's retailer clients and customising the business proposition to meet these needs. With the business now integrated, we believe it is well positioned to take advantage of the opportunities available within this market.

Paragon Personal Finance increased advances by 18% in the year and volumes have been maintained since the year end. Whilst lending was buoyant across the secured and unsecured markets, to take advantage of the higher quality of our secured products, we have during the year promoted these loans in preference to our unsecured product. We aim to grow this business by maintaining our volumes with our established introducers and increasing the volumes introduced by recent broker relationships.

The timeshare business, now operating as Paragon Leisure Finance, increased its share of the market for UK buyers of timeshare weeks. During the year the size of the sales team was increased and additional resource was provided to enhance service quality.

Paragon Car Finance increased advances by 38% despite the difficult market conditions that prevailed throughout the period and volumes have continued to be in line with plan since the year end. Our commitment and ability to provide proactive and flexible vehicle finance solutions have resulted in increasing numbers of dealers and corporate customers now using Paragon Car Finance for their vehicle financing requirements.

Outlook

Notwithstanding the gloomier economic outlook, trading activity remains at high levels, with first mortgages particularly strong and we see no evidence to date of deteriorating credit quality across our portfolios. Our cash position is healthy and we shall consider actively acquisition opportunities that may arise in the current environment. Whilst there may be uncertainties ahead, the components for delivering sustained, high quality earnings remain as before, namely, effective underwriting and arrears management and tight control of costs and margins. Your Board believes that Paragon is well placed to meet the challenges that lie ahead.

New non-executive director

We were sorry during the year to have to say goodbye to Charles Weiser, who had been a non-executive director since October 1998 and who resigned following taking up a position in Australia. I am delighted, however, to welcome Christopher Newell, who joined the Board on 1 November and brings to the Board a wealth of experience in the financial services sector.

Staff

I would like to thank the staff and my fellow directors at Paragon for their hard work over the last year. The success of the Group is entirely attributable to their enthusiasm, professionalism and dedication.

JONATHAN P L PERRY
Executive Chairman
7 December 2001

chief executive's review

The year to 30 September 2001 was another year of significant growth, of profits, business volumes and loans outstanding. It was also a year in which we expanded further our product and distribution base, by the acquisition of Colonial Finance (UK) Limited. We were delighted to report the increased profits of £40.5 million for the year and continue to be encouraged by the robustness of business volumes.

Total new lending during the year increased by 56.3% to £797.3 million from £510.0 million in 2000. Net loan assets grew by 26.5% to £2.15 billion. As a result of the growth in the book, net interest income increased by 16.9% to £72.8 million from £62.3 million.

Other operating income was £15.3 million, compared with £14.0 million for the previous year, the increase mainly reflecting the fees receivable on a higher volume of business.

Operating costs were £35.6 million, compared with £30.6 million in the previous year, the increase being largely attributable to the acquisition of Colonial Finance (UK) Limited. Last year we reported that increased operating expenses arising from the integration of the business of Colonial were expected to impact the cost to income ratio. However, tight control over costs has meant that, at 40.4% for the year, the percentage of costs to income is only marginally higher than the 40.1% in 2000. Whilst this is a pleasing result, operating costs will be an area of focus over the coming year and we expect to see a downward trend in the cost to income ratio over future years.

Provisions for losses were £12.0 million for the year, compared with £10.2 million for the previous year, the increase reflecting the growth in loan assets, in particular consumer finance assets, on the balance sheet. Across all our business areas the loan portfolios continue to perform in line with our expectations.

After providing for corporation tax at a charge rate of 20% and providing for the dividend in respect of the year, shareholders' funds at 30 September 2001 were 20.6% higher at £166.1 million.

Review of operations

First mortgages

The first mortgage business has been a particular focus for the Group this year. Paragon Mortgages advanced £381.6 million during the year ended 30 September 2001, an increase of 56.5% from the previous year's level of £243.8 million. At 30 September 2001, the loan book stood at £1,042.7 million, up 31.9% from £790.8 million at 30 September 2000. It is noteworthy that, during August, monthly completions exceeded £40 million for the first time. Furthermore, trading has remained robust since the year end, with application and completion levels remaining high despite a reported slowdown in the wider mortgage market.

Paragon Mortgages, now concentrating solely on serving the needs of the private residential landlord, has continued to build its business on the basis of a reputation for good service and innovation, maintaining a regular research programme among landlords and intermediaries in order that we may respond effectively to changing needs. A new service launched during the year was Paragon Plus, our landlord internet portal offering tenant referencing, insurance products, legal help and on-line information. Paragon Mortgages also participates actively in the main professional forums within the buy-to-let sector, and is regarded as a leading player in this developing market.

Arrears on the Paragon Mortgages book remain at very low levels, reflecting the tight credit criteria and high underwriting standards applied and margins on new business have held firm. Paragon Mortgages also earns fees on cases received which do not match our profile, having entered into an arrangement with a third party lender with alternative criteria. For referred cases which subsequently complete, Paragon Mortgages receives an arrangement fee and an ongoing servicing fee.

By 30 September 2001 the NHL book had reduced to £306.3 million, from £398.1 million at 30 September 2000. Despite the declining significance of this book it continues to be actively managed and remains profitable.

new mortgage
lending up by
56.5%

chief executive's review

MIKE LISTER
Residential Property Landlord

PINDI JALAL
Team Leader
Paragon Mortgages

Many of our professional landlords have a number of properties financed through Paragon Mortgages.

Consumer finance

We are pleased with the development of the consumer finance businesses which, during the year, have been expanded by the addition of a retail finance operation. Total advances in this division, at £415.7 million (2000: £266.2 million), were 56.2% higher than the previous year, with a book totalling £757.1 million at 30 September 2001.

Activity in the division has remained firm since the financial year end with completion levels in line with plan. In addition, a new point of sale initiative has been launched, concentrating on the home improvement market.

Retail finance

As we explained in our interim statement, the acquisition of Colonial Finance (UK) Limited on 16 October 2000 advanced our plans to develop a point of sale retail finance capability, with its lending focused on the more credit-robust sectors such as furniture and carpets.

The period since acquisition has been one of intense activity. The administration of the Colonial personal loans portfolio has been transferred to our experienced in-house team where it has performed well. The business of Colonial has been fully integrated within the Group and the retail loans business has been rebranded under the name Paragon Retail Finance. In addition, the sales team has been restructured and good progress has been made in terms of retailer sign-ups.

Despite relatively poor market conditions for instalment credit during the year, new loans of £81.9 million were advanced in the period. With the business now integrated, we believe it is well positioned to take advantage of the opportunities available within this market.

consumer finance advanced £415.7m

£81.9m of new lending by retail finance

chief executive's review

GORDON TAYLOR
Broker Relationship Manager
Paragon Personal Finance

STACEY KAVANAGH
Underwriter
Paragon Personal Finance

Working together to ensure that our intermediaries and customers are provided with the relevant products and service.

Personal finance

Advances by Paragon Personal Finance were £195.3 million for the year, compared with £165.9 million for the previous year, an increase of 17.7%. Total personal finance loan assets amounted to £507.1 million at 30 September 2001, up 43.9% from the 2000 level of £352.4 million.

We explained in our interim statement that we had been promoting our secured loan products in preference to unsecured loans with our finance brokers, to take advantage of the higher quality and more defensive properties inherent in our secured loan portfolio. As a result, secured loan completions rose substantially in the year to £111.2 million from £71.7 million in the previous year, while unsecured completions decreased to £84.1 million from £94.2 million, improving the risk weighting of the personal loan portfolio.

During the summer we launched a new internet based application processing system, which has proved to be popular with our brokers and has resulted in an increase in the volume of business submitted. The system will facilitate future product innovations and enables us to offer a first class service to our business suppliers.

The timeshare business, now rebranded Paragon Leisure Finance, has continued to increase its lending volumes, although this remains a small business. Consideration is currently being given to diversifying Paragon Leisure Finance into other markets within the leisure industry. Direct lending via affinity schemes has been scaled back as returns have been inadequate and arrangements with affinity partners are being restructured to improve profitability in this area.

Car finance

Conditions have been difficult in the car finance market throughout the year. Whilst demand for new cars and new car finance has increased recently and residuals have improved, this has not followed through to an increase in demand for used car finance, our primary target market. Despite this challenging environment, the loan book for this business increased to £188.7 million at 30 September 2001 from £128.4 million at the previous year end, an increase of 47%.

personal finance loan assets up by 43.9%

car finance loan book increased by 47%


chief executive's review

Completions, at £138.5 million in the year, were 38.1% higher than in the previous year. During the year Paragon Car Finance has expanded its distribution capability amongst dealerships, promoting a strong service proposition, while maintaining margins and quality of business. These two aspects of loan quality and margin maintenance remain the principal areas of focus for this business.

Home improvement finance

Paragon Home Improvement Finance was launched on 1 October 2001 and will, during the start up phase, specialise in financing double glazing and conservatories. This new product and distribution is a good fit within the business and will utilise existing resources and organisation. We will report on the progress of this division at the half year.

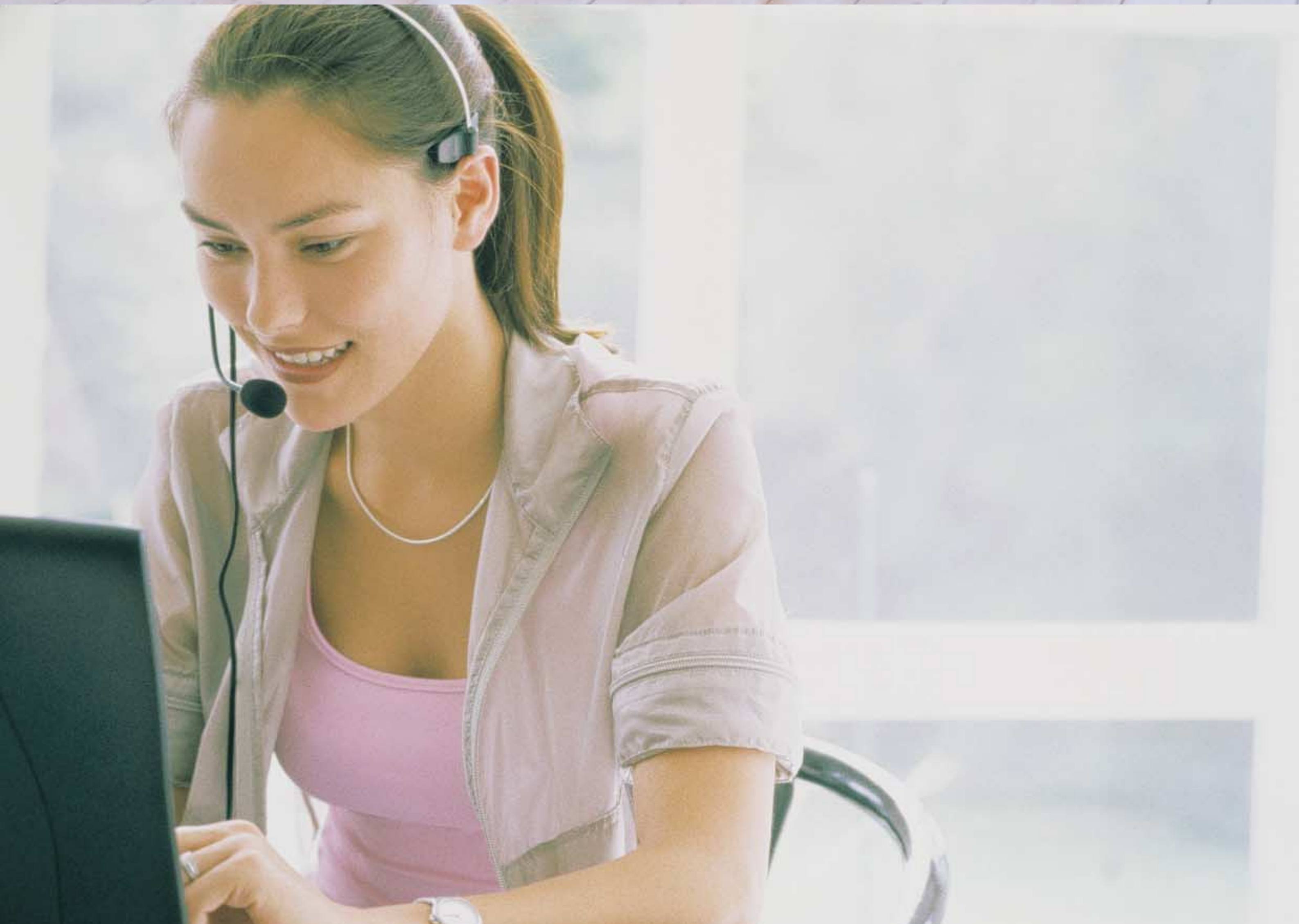
Funding

The Group continues to be active in the securitisation market, a source of capital efficient matched funding for all our loan assets. In November 2000 a £195 million securitisation of car and secured personal loans was completed through Paragon Auto and Secured Finance (No. 1) PLC, our first issue to be denominated in euros; in April a £340 million securitisation backed by loans originated by Paragon Mortgages was completed under the name Paragon Mortgages (No. 3) PLC; and in June £251 million of notes were issued by Paragon Personal and Auto Finance (No. 1) PLC, backed by secured and unsecured consumer finance assets (including loans acquired with the purchase of Colonial Finance (UK) Limited) and car finance loans. Work is currently underway to complete a further securitisation of personal finance and car finance loans, to include the refinancing of loans currently securitised by Finance for People (No. 3) PLC.

NIGEL S TERRINGTON
Chief Executive
7 December 2001

home improvement finance launched in October 2001

continued focus on customer service

board of directors


1. Jonathan P L Perry


2. Nigel S Terrington


3. Nicholas Keen


4. F William Hulton OBE


5. David A Hoare


6. Professor Andrew D Chambers


7. Michael J R Kelly


8. Christopher D Newell

board of directors

1. **Jonathan P L Perry**
   Executive Chairman
   Age 62
   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 a Director of Morgan Grenfell & Co Limited for 15 years.

2. **Nigel S Terrington**
   Chief Executive
   Age 41
   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 investment banking. 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.

3. **Nicholas Keen**
   Finance Director
   Age 43
   Nicholas Keen joined the Group in May 1991 and became Finance Director in June 1995 having previously held the position of Treasurer. Prior to joining the Group he worked in Corporate Banking, Treasury and Capital Markets. He is Chairman of the Credit Committee.

4. **F William Hulton OBE**
   Non-Executive Director
   Age 63
   Director of Botts & Co Limited. 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.

5. **David A Hoare**
   Non-Executive Director
   Age 51
   Principal and Director of Talisman Management Limited and Chairman of Virgin Express Holdings PLC and Duncton PLC. He previously held the position of Chief Executive at Laura Ashley and has been a non-executive director of Paragon since May 1994.

6. **Professor Andrew D Chambers**
   Non-Executive Director
   Age 51
   Director of Management Audit Limited and emeritus professor at City University London, where he was a Dean of the Business School. He is Chairman of Paragon's Audit Committee and has been a non-executive director of Paragon since February 1991. He is author or co-author of several current auditing books, and is writing the new Tolley handbook on corporate governance.

7. **Michael J R Kelly**
   Non-Executive Director
   Age 60
   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. He is also the author of an on-line mortgage publication.

8. **Christopher D Newell**
   Non-Executive Director
   Age 41
   Christopher Newell has been a director of Altium Capital Limited (formerly Apax Partners & Co. Corporate Finance) since 1990 and Managing Director since 1996. He is also a director of Artemis Investment Management Limited. He joined the Board of Paragon as a non-executive director in November 2001.

directors' report

For the year to 30 September 2001

The directors submit their Report and Accounts for the year ended 30 September 2001 which were approved by the Board on 7 December 2001.

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 consumer finance and first mortgage businesses.

The Chairman's Statement and the Chief Executive's Review on pages 2 to 10 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 24.

The directors recommend a final dividend of 2.3p per share (2000: 2.1p per share) which, together with the interim dividend of 1.9p per share (2000: 1.7p per share) paid on 31 July 2001, makes a total of 4.2p per share. After dividends, retained profits of £27.3 million (2000: £24.1 million) have been transferred to reserves.

Directors

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

	AT 30 SEPTEMBER 2001 ORDINARY SHARES OF 10P EACH	AT 30 SEPTEMBER 2000 ORDINARY SHARES OF 10P EACH
J P L Perry	**278,717**	252,437
N S Terrington	**85,520**	59,240
N Keen	**23,140**	10,000
A D Chambers*	**500**	500
D A Hoare*	**34,650**	34,650
F W Hulton*	**20,000**	42,656
M J R Kelly*	**3,365**	-

*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 21 on page 43.

Other than grants of options shown in note 21, there have been no changes in the directors' interests in the share capital of the Company since 30 September 2001.

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

Mr C Weiser resigned from the Board on 9 July 2001 and Mr C D Newell was appointed on 1 November 2001.

In accordance with the Articles of Association, Mr J P L Perry, Mr N S Terrington, Mr N Keen and Mr C D Newell will retire and, being eligible, will offer themselves for re-appointment at the forthcoming Annual General Meeting. None of these directors has a service contract with the Company requiring more than 12 months' notice of termination to be given.

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

directors' report
For the year to 30 September 2001

Substantial shareholdings
As at 30 November 2001, 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	15,235,793	13.0%
M & G Investment Management Limited	12,251,838	10.4%
Standard Life Assurance Co	6,421,952	5.5%
Legal & General Investment Management Limited	5,820,591	5.0%
Perpetual Unit Trust Management Limited	5,262,897	4.5%
AEGON Asset Management plc	5,046,184	4.3%
Clerical Medical & General Life Assurance Society	4,664,093	4.0%
JP Morgan Fleming Asset Management	4,580,833	3.9%
Merrill Lynch Investment Management	4,237,854	3.6%
Zurich Scudder Investments (UK)	4,167,009	3.6%
Hermes Pension Management Limited	3,527,224	3.0%

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.

The directors encourage the involvement of employees at all levels by the staff appraisal process and through communication between directors, team leaders and teams. The staff appraisal system used by the Group is designed to assist employees in developing their careers within the Group and to identify and provide appropriate training opportunities.

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.

Environmental and Health and Safety policies
The Group has a formal Health and Safety policy which is intended to ensure the maintenance of healthy and safe working conditions in all the premises occupied by the Group. The Group also operates responsibly with regard to the environment, with extensive use being made of electronic communications in place of paper usage, careful control of business travel, recycling of waste paper by external contractors, energy efficiency and the Group's relationship with the local community all being matters of high priority.

Appropriate procedures have been established to monitor, maintain and consistently improve the Group's Health and Safety standards and environmental performance and to ensure compliance with all necessary legislation. Monitoring is undertaken internally and by external consultants and training is organised for staff from time to time.

Charitable contributions
Contributions to charitable institutions in the United Kingdom amounted to £12,903 (2000: £10,786).

directors' report

For the year to 30 September 2001

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 1 February 2001 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 £4,404,200 representing approximately 37.5% of the Company's issued capital at 30 November 2001 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 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 £586,400, representing approximately 5% of the Company's issued share capital at 30 November 2001.

RESOLUTION 7

This resolution, which is being proposed as a Special Resolution, will enable the Company to purchase, in the market up to a maximum of 11.7 million of the Company's ordinary shares (approximately 10% of the issued capital at 30 November 2001) for cancellation at a minimum price of 10p per share and a maximum price of not more than 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately prior to the date of purchase.

The directors would not expect to purchase ordinary shares in the market unless, in the light of market conditions prevailing at the time, they considered that to do so would enhance earnings per share and would be in the best interests of shareholders generally. Any purchases made by the Company will be announced no later than 7:30am on the business day following the transaction.

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

JOHN G GEMMELL
Company Secretary
7 December 2001

report of the board on directors' remuneration

Remuneration Committee

The Committee consists solely of three non-executive directors: William Hulton, Professor Andrew Chambers and David Hoare. 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 on Corporate Governance.

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

Salary

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

Performance bonuses

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

Pension contributions

During the year, two of the executive directors were members of the Group Retirement Benefits Plan, to which the Company contributes at the same rate as for all members, while in respect of one executive director the Company paid monthly contributions into his personal pension scheme. Dependents of executive directors who are members of the Group Retirement Benefits Plan are eligible for a dependent'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 Financial Services 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 Option and

report of the board on directors' remuneration

Paragon 1999 Sharesave schemes is 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. All of the directors seeking re-election at the Annual General Meeting, other than Mr C D Newell, have 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 £21,250. 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 exercised by Michael Kelly during the year were granted during his previous appointment as an executive director. Mr Kelly has no remaining options over shares in the Company.

The information on directors' remuneration and share options contained in notes 5 and 21 forms part of this report.

By order of the Board

JOHN G GEMMELL
Company Secretary
7 December 2001

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 24 to 54), 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.

independent auditors' report

To the members of The Paragon Group of Companies PLC

We have audited the financial statements of The Paragon Group of Companies PLC for the year ended 30 September 2001 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 31 together with the reconciliation of movement in consolidated shareholders' funds. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibility, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

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 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications 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 adequacy of the 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 2001 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

7 December 2001

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. Throughout the year the Group has been in compliance with the Code provisions set out in section 1 of the Combined Code on Corporate Governance. 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.

All non-executive directors are independent of management and are appointed for fixed terms. They fulfil a vital role in helping the executive to develop the Company, are kept fully informed of all relevant operational and strategic issues and bring a strongly independent and experienced judgement to bear on these issues.

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

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

- The Remuneration Committee, consisting of William Hulton, who chairs the committee, Professor Andrew Chambers and David Hoare.
- The Audit Committee, consisting of all the non-executive directors and chaired by Professor Andrew Chambers. The committee meets at least three times per year. It oversees the monitoring of the adequacy of the Group's internal controls, accounting policies and financial reporting, monitors the adequacy of the Group's audit arrangements and the relationship between the Company and the auditors and provides a forum through which the Group's external and internal audit functions report to the non-executive directors.
- The Asset and Liability Committee, consisting of the executive directors and chaired by Nigel Terrington, the Chief Executive. It meets regularly and monitors Group interest rate risks, currency risks and treasury counterparty exposures.
- The Credit Committee, consisting of appropriate heads of functions and chaired by Nicholas Keen, the Finance Director. It meets regularly and is responsible for establishing credit policy and monitoring compliance therewith.
- The Nomination Committee, consisting of Jonathan Perry, who chairs the committee, and two non-executive directors. The committee is convened as required to nominate candidates for membership of the Board, although ultimate responsibility for appointment rests with the Board.

All Board committees operate within defined terms of reference.

Directors' remuneration

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

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

Relations with shareholders

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

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

Accountability and audit

Detailed reviews of the performance of the Group's main business lines are included within the Chairman's Statement and Chief Executive's Review. The Board uses these, together with the Directors' Report on pages 14 to 16 to present a balanced and understandable assessment of the Company's position and prospects.

The directors' responsibility for the financial statements is described on page 18.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which is regularly reviewed by the Board, was in place for the year ended 30 September 2001 and to the date of approval of these financial statements. The directors confirm that they have reviewed the effectiveness of the Group's system of internal control for this period and that these procedures accord with the guidance 'Internal Controls: Guidance for Directors on the Combined Code'.

The directors are responsible for the system of internal control throughout the Group and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide reasonable, but not absolute, assurance against material misstatement or loss and that assets are safeguarded against unauthorised use or disposition. 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 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 Board receives regular reports setting out key performance and risk indicators. In addition the Board operates a formal risk management process, from which the key risks facing the business are identified. The process results in reports to the Board on how these risks are being managed. The Board meets regularly with the heads of functions to review the operation of internal controls in relation to the risks associated with their specific areas.

The system of internal 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 control annually and reports its conclusions to the Board.

Going concern basis

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

Compliance Statement

The Listing Rules require the Board to report on compliance with the forty-five Code provisions throughout the accounting period. Throughout the year ended 30 September 2001 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 Financial Services Authority.

the

accounts

consolidated profit and loss account

For the year to 30 September 2001

	NOTES	2001 £M	2000 £M
Interest receivable		**229.7**	186.4
Interest payable and similar charges	3	**(156.9)**	(124.1)
NET INTEREST INCOME		**72.8**	62.3
Other operating income	4	**15.3**	14.0
TOTAL OPERATING INCOME		**88.1**	76.3
Operating expenses		**(35.6)**	(30.6)
Provisions for losses		**(12.0)**	(10.2)
OPERATING PROFIT BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	**40.5**	35.5
Tax charge on profit on ordinary activities	8	**(8.2)**	(7.0)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		**32.3**	28.5
EQUITY DIVIDEND	10	**(5.0)**	(4.4)
RETAINED PROFIT		**27.3**	24.1
EARNINGS PER SHARE			
-basic	11	**28.5p**	25.1p
-diluted	11	**27.8p**	24.9p

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.

There is no material difference between the results as stated above and those determined on the historical cost basis.

consolidated balance sheet

30 September 2001

	NOTES	£M	2001 £M	£M	2000 RESTATED £M
ASSETS EMPLOYED					
FIXED ASSETS					
Tangible assets	12	**3.2**		3.6	
Loans to customers	13	**2,146.3**		1,697.2	
Investment in own shares	14	**4.8**		4.8	
			2,154.3		1,705.6
CURRENT ASSETS					
Stocks	16	**8.9**		11.5	
Debtors falling due within one year	17	**7.9**		8.9	
Investments		**125.5**		50.2	
Cash at bank and in hand		**106.0**		95.1	
			248.3		165.7
			2,402.6		1,871.3
FINANCED BY					
EQUITY SHAREHOLDERS' FUNDS					
Called-up share capital	19		**11.7**		11.6
Share premium account	20	**63.5**		62.5	
Merger reserve	20	**(70.2)**		(70.2)	
Profit and loss account	20	**161.1**		133.8	
			154.4		126.1
			166.1		137.7
PROVISIONS FOR LIABILITIES AND CHARGES	22		**2.3**		3.7
CREDITORS					
Amounts falling due within one year	23	**37.6**		30.5	
Amounts falling due after more than one year	23	**2,196.6**		1,699.4	
			2,234.2		1,729.9
			2,402.6		1,871.3

Approved by the Board of Directors on 7 December 2001
Signed on behalf of the Board of Directors

N S TERRINGTON
Chief Executive

N KEEN
Finance Director

holding company balance sheet

30 September 2001

			2001		2000
	NOTES	£M	£M	£M	£M
ASSETS EMPLOYED					
FIXED ASSETS					
Investment in own shares	14	**4.8**		4.8	
Investment in subsidiary companies	15	**121.2**		60.8	
			126.0		65.6
CURRENT ASSETS					
Debtors falling due within one year	17	**78.6**		76.8	
Cash at bank and in hand		**0.1**		0.1	
			78.7		76.9
			204.7		142.5
FINANCED BY					
EQUITY SHAREHOLDERS' FUNDS					
Called-up share capital	19		**11.7**		11.6
Share premium account	20	**63.5**		62.5	
Revaluation reserve	20	**1.8**		1.6	
Profit and loss account	20	**89.1**		62.0	
			154.4		126.1
			166.1		137.7
CREDITORS					
Amounts falling due within one year	23		**38.6**		4.8
			204.7		142.5

Approved by the Board of Directors on 7 December 2001

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 2001

	Notes	2001 £m	2000 restated £m
Net cash inflow from operating activities	25	**80.5**	58.0
Taxation		**(5.7)**	(1.3)
Capital expenditure and financial investment	26(a)	**(322.4)**	(226.2)
Acquisitions and disposals	26(b)	**0.3**	-
Equity dividends paid		**(4.7)**	(4.2)
		(252.0)	(173.7)
Management of liquid resources	28	**(51.1)**	(9.9)
Financing	26(c)	**339.2**	171.5
INCREASE/(DECREASE) IN CASH IN THE YEAR		**36.1**	(12.1)

reconciliation of movement in consolidated shareholders' funds

For the year to 30 September 2001

	2001 £m	2000 £m
Profit attributable to shareholders	**32.3**	28.5
Dividend	**(5.0)**	(4.4)
Exercise of share options	**1.1**	0.1
Net movement in shareholders' funds	**28.4**	24.2
Opening shareholders' funds	**137.7**	113.5
Closing shareholders' funds	**166.1**	137.7

notes to the accounts

For the year to 30 September 2001

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 fixed asset investments.

b. Basis of consolidation

The consolidated accounts deal with the accounts of the Company and its subsidiaries made up to 30 September 2001. The results of the business acquired during the year are dealt with in the consolidated accounts from the date of acquisition.

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.

The amount provided is an estimate of the amount needed to reduce the carrying value of the asset to its expected recoverable amount and is based on the application of formulae which take into account the nature of each portfolio, borrower payment profile and expected losses.

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 recoverable amount.

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.

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.

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 currency swap, 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 4.

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.

The Group has adopted the transitional disclosure requirements of Financial Reporting Standard 17 – 'Retirement Benefits'.

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.

The balances being amortised are included within 'Loans to Customers'. These balances were previously included within 'Prepayments and accrued income' but it is felt that the change represents a more appropriate classification. The comparative figures have been restated to reflect this change.

The financial effect of this change on the consolidated balance sheet is to increase the balance of 'Loans to Customers' at 30 September 2000 by £27.5m and to reduce the balance of 'Prepayments and accrued income' by the same amount. The effect on the consolidated cash flow statement is to increase the amount reported as 'Net cash inflow from operating activities' by £25.6m and to increase 'Net increase in loans to customers' by the same amount. This change has no impact on the profit either for the year or the preceding year.

2. Acquisition and goodwill

The entire issued share capital of Colonial Finance (UK) Limited was acquired on 16 October 2000 for a total acquisition cost of £3.3m. This acquisition has been accounted for by the acquisition method of accounting. No goodwill arises as a result of this acquisition.

The losses after taxation of Colonial Finance (UK) Limited prior to acquisition were as follows:

	LOSS AFTER TAX £M
RESULTS PRIOR TO ACQUISITION	
1 January 2000 to date of acquisition	(9.5)
Preceding financial year ended 31 December 1999	(1.3)

The following table explains the adjustments made to the book value of the major categories of assets and liabilities to arrive at the fair values included in the consolidated financial statements at the date of acquisition. The cash flow effects of the acquisition are given in note 29.

	BOOK AMOUNT £M	REVALUATION £M	ALIGNMENT OF ACCOUNTING POLICIES £M	FAIR VALUE TO THE GROUP £M
Loans to customers	173.1	(12.9)	-	160.2
Other debtors	1.9	-	-	1.9
Cash at bank and in hand	3.6	-	-	3.6
Creditors and provisions	(162.4)	-	-	(162.4)
	16.2	(12.9)	-	3.3
Goodwill				-
Acquisition cost				3.3
Cash consideration				2.6
Costs of acquisition				0.7
Acquisition cost				3.3

Goodwill

Goodwill capitalised in 2001 under the accounting policy stated in note 1 amounted to £nil (2000: £nil). The cumulative amount of goodwill on acquisitions written off to reserves as a matter of accounting policy prior to the implementation of Financial Reporting Standard 10 – 'Goodwill and Intangible Assets' is £56.4m (2000: £56.4m).

The results for the businesses of Colonial Finance (UK) Limited have not been separately disclosed on the face of the profit and loss account or within the notes to the cash flow statement because, as a result of the integration of these businesses within the continuing operations of the Group, it is not practicable to disclose their post acquisition results.

notes to the accounts

For the year to 30 September 2001

3. Interest payable and similar charges

	2001 £M	2000 £M
On asset backed loan notes	**107.3**	92.1
On bank loans and overdrafts	**29.5**	19.3
Amortisation of brokers' commissions payable	**20.1**	12.7
	156.9	124.1

4. Other operating income

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

	2001 £M	2000 £M
Turnover	**10.8**	9.4
Cost of sales	**(10.3)**	(8.6)
Gross profit	**0.5**	0.8

Included within other operating income is income from property leases of £2.0m (2000: £1.2m).

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	**2001 TOTAL £000**	2000 TOTAL £000
EXECUTIVE						
J P L Perry	162	5	75	35	**277**	245
N S Terrington	231	12	205	21	**469**	405
N Keen	177	4	160	78	**419**	361
NON-EXECUTIVE						
A D Chambers	24	-	-	-	**24**	22
D A Hoare	21	-	-	-	**21**	20
F W Hulton	24	-	-	-	**24**	22
M J R Kelly	21	-	-	-	**21**	20
C Weiser	16	-	-	-	**16**	20
2001	**676**	**21**	**440**	**134**	**1,271**	1,115
2000	659	17	310	129	1,115	

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

5. Directors' remuneration (continued)

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 £000	Transfer value of increase £000	**Accumulated total accrued pension at 30 September 2001 £000**	Accumulated total accrued pension at 30 September 2000 £000
N S Terrington	5	26	**66**	59
N Keen	3	23	**33**	29

The pension entitlement shown is that which would be paid annually on retirement based on services to 30 September 2001.
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 scheme 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 £70,000 (2000: £68,000) 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 622 (2000: 623).
Staff costs incurred during the year in respect of these employees were:

	2001 £m	2000 £m
Wages and salaries	**14.6**	14.2
Social Security costs	**1.1**	1.1
Other pension costs	**0.8**	0.8
	16.5	16.1

Details of the Group Pension Scheme are given in note 18.

7. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is after charging:

	2001 £m	2000 £m
Depreciation	**1.2**	1.3
Hire of plant and machinery	**0.4**	0.6
Property rents payable	**3.8**	3.4

The audit fee for the Group was £0.3m (2000: £0.3m). Other fees paid to the auditors in respect of securitisation, corporate finance and taxation matters were £0.4m (2000: £0.3m). The Company's audit fee was £19,700 (2000: £16,400).
The profit for the year is derived from a single operation and all lending takes place within the UK.

8. Tax charge on profit on ordinary activities

	2001 £M	2000 £M
UK CORPORATION TAX AT 30% (2000: 30%)		
Current tax	**12.5**	9.1
Write-back of Advance Corporation Tax	**(3.2)**	(2.8)
Deferred tax (note 22)	**(0.3)**	0.7
	9.0	7.0
PRIOR YEAR ADJUSTMENTS		
Current tax	**(0.8)**	-
Tax charge on profit on ordinary activities	**8.2**	7.0

The taxation charge has been reduced by £3.2m (2000: £3.6m) in respect of movements in partially provided deferred tax assets including unrelieved Advance Corporation Tax. There are losses carried forward to offset against future income of appropriate Group companies of £1.5m (2000: £3.0m). In addition the Group has capital losses in excess of £65m (2000: £65m) 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 £32.1m (2000: £27.2m). 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. Equity dividend

	2001 PER SHARE	2000 PER SHARE	2001 £M	2000 £M
EQUITY DIVIDEND ON ORDINARY SHARES				
Interim paid	**1.9p**	1.7p	**2.2**	2.0
Proposed final	**2.3p**	2.1p	**2.8**	2.4
	4.2p	3.8p	**5.0**	4.4

11. Earnings per share

Earnings per ordinary share is calculated as follows:

	2001	2000
Profit for the year	**£32,300,000**	£28,500,000
Basic weighted average number of ordinary shares ranking for dividend during the year	**113,389,521**	113,308,398
Dilutive effect of the weighted average number of share options in issue during the year	**2,822,408**	1,260,602
Diluted weighted average number of ordinary shares ranking for dividend during the year	**116,211,929**	114,569,000
Earnings per ordinary share		
- basic	**28.5p**	25.1p
- diluted	**27.8p**	24.9p

12. Tangible fixed assets

	SHORT LEASEHOLD PREMISES £M	PLANT AND MACHINERY £M	TOTAL £M
COST			
At 1 October 2000	1.4	9.2	10.6
Additions	0.1	0.9	1.0
Disposals	-	(0.9)	(0.9)
At 30 September 2001	1.5	9.2	10.7
ACCUMULATED DEPRECIATION			
At 1 October 2000	0.7	6.3	7.0
Charge for the year	0.1	1.1	1.2
On disposals	-	(0.7)	(0.7)
At 30 September 2001	0.8	6.7	7.5
NET BOOK VALUE			
At 30 September 2001	**0.7**	**2.5**	**3.2**
At 30 September 2000	0.7	2.9	3.6

13. Loans to customers

	2001 £M	2000 RESTATED £M
COST		
At 1 October 2000	**1,697.2**	1,497.2
Additions	**978.3**	534.9
Amortisation of commissions	**(20.1)**	(12.7)
Other debits	**204.6**	177.0
Repayments and redemptions	**(713.7)**	(499.2)
At 30 September 2001	**2,146.3**	1,697.2

Included in loans to customers are £188.7m (2000: £128.3m) of hire purchase receivables. The aggregate rentals receivable during the year in respect of hire purchase contracts were £23.8m (2000: £15.1m). The cost of assets acquired by the Group for the purposes of letting under hire purchase contracts amounted to £136.4m (2000: £99.3m).

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

14. Investment in own shares

	2001 £M	2000 £M
Shares held by the trustee of the share option schemes	**4.8**	4.8

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 2001, the trust held 2,808,886 shares (2000: 3,848,253) with a nominal value of £280,889 (2000: £384,825) and a market value of £6,235,727 (2000: £5,810,862). Options were outstanding against 2,684,546 of these shares at 30 September 2001. The dividends on these shares have not been waived.

15. Investment in subsidiary companies

	2001 £M	2000 £M
SHARES IN GROUP COMPANIES		
At 1 October 2000	**60.8**	19.7
Additions during the year	**62.8**	0.1
Revaluation		
(Charged)/credited to the profit and loss account	**(2.6)**	39.7
Credited to the revaluation reserve	**0.2**	1.3
	121.2	60.8
LOANS TO GROUP COMPANIES		
At 1 October 2000	-	10.0
Additions during the year	-	21.3
Repayments during the year	**(7.7)**	(10.0)
Revaluation		
Credited/(charged) to the profit and loss account	**7.7**	(21.3)
	-	-
At 30 September 2001	**121.2**	60.8

Comparable amounts determined according to the historic cost convention are:

	SHARES IN GROUP COMPANIES £M	LOANS TO GROUP COMPANIES £M	TOTAL £M
Cost	238.8	40.5	279.3
Provision	(119.4)	(40.5)	(159.9)
At 30 September 2001	**119.4**	**-**	**119.4**
At 30 September 2000	59.2	-	59.2

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 (No. 3) PLC	100%	Residential mortgages
Paragon Mortgages SA	100%	Residential mortgages
Paragon Mortgages (No. 2) SA	100%	Residential mortgages
Paragon Mortgages (No. 3) SA	100%	Residential mortgages
Paragon Mortgages (No. 4) SA	100%	Residential mortgages
Paragon Auto and Secured Finance (No. 1) PLC	100%	Loan and vehicle finance
Paragon Personal and Auto Finance (No. 1) PLC	100%	Loan and vehicle finance
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, Paragon Mortgages (No. 3) SA and Paragon Mortgages (No. 4) 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

	2001 £M	2000 £M
Residual purchase obligations	**8.0**	10.9
Vehicles on extended hire or held for resale	**0.9**	0.6
	8.9	11.5

17. Debtors

	THE GROUP 2001 £M	THE GROUP 2000 RESTATED £M	THE COMPANY 2001 £M	THE COMPANY 2000 £M
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Amounts owed by Group companies	**-**	-	**78.0**	71.6
Tax debtors	**2.1**	2.5	**0.1**	0.1
Other debtors	**4.8**	5.2	**-**	-
Prepayments and accrued income	**1.0**	1.2	**0.5**	5.1
	7.9	8.9	**78.6**	76.8

18. Pensions

During the year Financial Reporting Standard 17 – 'Retirement Benefits' ('FRS 17') began to come into force. This standard will require assets or liabilities arising from the Group's defined benefit pension scheme to be evaluated and accounted for in the primary financial statements on a new basis with effect from the Group's financial year ending 30 September 2003.

As a transitional measure, the standard requires that the pension asset or liability calculated on the new basis is disclosed by way of memorandum in the notes to the accounts. These disclosures are given at (a) below. The Standard provides that the asset or liability recognised in the accounts at 30 September 2001 should continue to be calculated according to Statement of Standard Accounting Practice 24 – 'Accounting for Pension Costs' ('SSAP 24'). Disclosures relating to this calculation are given at (b) below.

The pension scheme asset calculated in accordance with SSAP 24 and recognised in the balance sheet of the Group at 30 September 2001 was £0.1m (2000: £0.1m) and the liability at that date calculated in accordance with FRS 17 was £0.9m. The difference of £1.0m relates to the differing bases of calculation.

a. Disclosures made in accordance with FRS 17

The Group operates a defined benefit pension scheme in the UK. A full actuarial valuation was carried out at 31 March 2001 and updated to 30 September 2001 by a qualified independent actuary. The major assumptions used by the actuary were:

	30 SEPTEMBER 2001
Rate of increase in salaries	**3.5% p.a.**
Rate of increase in deferred pensions in excess of GMP which receives statutory revaluation	**2.5% p.a.**
Rate of increase in pensions in payment in excess of GMP which receives statutory increases	**2.5% p.a.**
Discount rate	**6.0% p.a.**
Inflation assumption	**2.5% p.a.**

The assets in the Plan at 30 September 2001 and the expected rate of return were:

	LONG TERM RATE OF RETURN EXPECTED	VALUE £M
Equities	8.0%	**11.6**
Bonds	5.0%	**1.4**
Other	4.0%	**0.2**
Total market value of assets		**13.2**
Present value of scheme liabilities		**(14.5)**
Deficit in the scheme		**(1.3)**
Related deferred tax		**0.4**
Net pension liability		**(0.9)**

18. Pensions (continued)

The Group's contribution to the scheme is shown in note 6. The agreed rate of employer contributions is currently 9.5% of gross salaries for participating employees.

If the treatment which will be required by FRS 17 had been adopted in the preparation of the financial statements for the year ended 30 September 2001, the balance which would have been shown in the reserves of the Group in respect of the profit and loss account would have been analysed as follows.

	2001 £M
Profit and loss account excluding pension liability	161.0
Pension liability	(0.9)
Profit and loss account after adjustment for pension liability	160.1

b. Disclosures made in accordance with SSAP 24

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% higher than the annual increase in salaries. The valuation revealed that the actuarial value of assets was sufficient to cover 100% of the benefits that had accrued to members after allowing for future increases in earnings.

notes to the accounts

For the year to 30 September 2001

19. Called-up share capital

	2001 £M	2000 £M
AUTHORISED:		
175,000,000 (2000: 175,000,000) ordinary shares of 10p each	**17.5**	17.5
ALLOTTED AND PAID-UP:		
117,296,274 (2000: 116,347,335) ordinary shares of 10p each	**11.7**	11.6

During the year 912,146 ordinary shares (£91,215 par value) were issued for £994,900, 33,370 (£3,337 par value) ordinary shares were issued for £29,119 and a further 3,423 (£342 par value) were issued for £5,356. These issues were made under the executive and employee share option schemes and the Sharesave scheme, respectively.

20. Reserves

a. The Group

	SHARE PREMIUM ACCOUNT £M	MERGER RESERVE £M	PROFIT AND LOSS ACCOUNT £M	TOTAL £M
Balance at 1 October 2000	62.5	(70.2)	133.8	126.1
Share options exercised	1.0	-	-	1.0
Retained profit for the year	-	-	27.3	27.3
Balance at 30 September 2001	**63.5**	**(70.2)**	**161.1**	**154.4**

The cumulative amount of goodwill on acquisitions written off to reserves is £56.4m (2000: £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 £M	REVALUATION RESERVE £M	PROFIT AND LOSS ACCOUNT £M	TOTAL £M
Balance at 1 October 2000	62.5	1.6	62.0	126.1
Revaluation of investments in subsidiaries	-	0.2	-	0.2
Share options exercised	1.0	-	-	1.0
Retained profit for the year	-	-	27.1	27.1
Balance at 30 September 2001	**63.5**	**1.8**	**89.1**	**154.4**

21. Share option schemes

Options are outstanding under the executive share option and the all employee share option schemes to purchase 7,526,593 (2000: 9,682,270) ordinary shares of 10p each as follows:

NUMBER	PERIOD EXERCISABLE	PRICE
733,399	13/03/1998 to 13/03/2005	97.33p
16,686	31/03/1998 to 31/03/2005	87.26p
32,296	04/07/1998 to 04/07/2005	97.33p
38,866	21/06/1999 to 21/06/2003	103.08p
625,680	02/12/1999 to 02/12/2003	105.48p
1,035,000	31/03/2001 to 31/03/2008	218.00p
650,000	31/03/2001 to 31/03/2005	218.00p
250,000	30/09/2001 to 30/09/2008	162.50p
1,360,000	11/01/2002 to 11/01/2009	147.50p
74,931	23/03/2002 to 22/09/2002	164.40p
29,345	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
457,198	21/06/2003 to 20/12/2003	120.64p
258,192	21/06/2005 to 20/12/2005	120.64p
30,000	26/02/2004 to 26/02/2008	221.50p

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.

Details of individual options held by the directors at 30 September 2000 and 30 September 2001:

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 2000:						
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	-
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	-	-
			1,212,656	1,691,473	1,546,493	3,365
OPTIONS EXERCISED IN THE YEAR:						
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	-	(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)	(234,630)	-
At 30 September 2001			**1,186,376**	**1,038,987**	**966,060**	**-**

At 30 September 2001 The Paragon Group of Companies PLC share price was 222p and the range during the year then ended was 130p to 285p. Aggregate gains before taxation made by directors on the exercise of share options were £1,870,000 including gains of £976,000 made by Mr N S Terrington. No share options were exercised by any director in the year ended 30 September 2000.

After the year end Mr J P L Perry was granted options over 170,000 shares, Mr N S Terrington was granted options over 300,000 shares and Mr N Keen was granted options over 250,000 shares. All of these options are exercisable between 27 November 2004 and 27 November 2011, at an exercise price of 248p per share.

* 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 17.

22. Provisions for liabilities and charges

a. The Group

	DEFERRED TAXATION £M	OTHER PROVISIONS £M	TOTAL £M
Provision at 1 October 2000	2.1	1.6	3.7
Current year credit	(0.3)	-	(0.3)
Utilised in the year	-	(1.1)	(1.1)
Provision at 30 September 2001	**1.8**	**0.5**	**2.3**

The other provisions include committed future lease costs for properties no longer occupied by the Group. 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:

	2001 POTENTIAL LIABILITY £M	**2001 PROVIDED £M**	2000 POTENTIAL LIABILITY £M	2000 PROVIDED £M
Other timing differences	**1.8**	**1.8**	2.1	2.1

b. The Company

There is no potential liability for deferred tax in the holding company either at 30 September 2001 or 30 September 2000.

23. Creditors

	THE GROUP 2001 £M	THE GROUP 2000 £M	**THE COMPANY 2001 £M**	THE COMPANY 2000 £M
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Bank loans and overdrafts	**-**	1.0	**-**	-
Amounts owed to Group companies	**-**	-	**35.7**	2.3
Proposed dividend	**2.7**	2.4	**2.7**	2.4
Corporation tax	**8.5**	5.7	**-**	-
Accruals	**26.4**	21.4	**0.2**	0.1
	37.6	30.5	**38.6**	4.8
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
Asset backed loan notes	**1,839.6**	1,294.8	**-**	-
Bank loans	**353.1**	397.4	**-**	-
Accruals	**3.9**	7.2	**-**	-
	2,196.6	1,699.4	**-**	-

A maturity analysis of the above borrowings and further details of asset backed loan notes and bank loans are given in note 24.

24. 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, retail 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 notes denominated in sterling at various rates between 0.13% and 2.25% above the London Interbank Offered Rate ('LIBOR') for three month sterling products. Interest is payable on notes denominated in euros at 0.34% above the Euro Interbank Offered Rate ('EURIBOR') for three month euro products. During the year Group companies issued £340.0m (2000: £185.0m) of mortgage backed floating rate notes at par and £446.0m (2000: £nil) of asset backed floating rate notes at par.

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 2001 is £12.2m (2000: £12.1m) in respect of such loans.

Assets are typically securitised within twelve months of origination. Until that point new loans are funded using a £400.0m (2000: £300.0m) committed sterling facility provided to Paragon Second Funding Limited by a consortium of banks. £181.9m (2000: £270.8m) 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. This facility remains available for further drawings until 26 January 2002 and although the facility expires in 2044 it is likely that substantial repayments will be made within the next five years.

24. Financial instruments (continued)

In addition to these borrowings the Group has a committed corporate syndicated sterling bank facility of £160.0m (2000: £140.0m), used to provide working capital for the Group. Included in bank loans are drawings of £158.9m (2000: £114.5m) made by Paragon Finance PLC under this facility. This facility reduces by installments 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.

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 2001 and 30 September 2000 are set out below.

	2001 £M	2000 £M
UNDRAWN COMMITTED FACILITIES FOR WHICH REPAYMENT WOULD FALL DUE:		
In one year or less	218.0	-
In more than one year, but not more than two years	-	29.0
In more than two years	-	24.0
	218.0	53.0

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 2001 is £156.3m subject to such restrictions (2000: £132.8m).

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 2001 and 30 September 2000:

	OVER DRAFTS £M	BANK LOANS £M	ASSET BACKED LOAN NOTES £M	OTHER £M	2001 TOTAL £M	OVER DRAFTS £M	BANK LOANS £M	ASSET BACKED LOAN NOTES £M	OTHER £M	2000 TOTAL £M
FINANCIAL LIABILITIES FALLING DUE										
In one year or less, or on demand	-	-	-	37.6	37.6	1.0	-	-	29.5	30.5
In more than one year, but not more than two years	-	-	-	2.3	2.3	-	-	-	4.3	4.3
In more than two years, but not more than five years	-	158.9	-	1.6	160.5	-	126.6	-	2.9	129.5
In more than five years	-	194.2	1,839.6	-	2,033.8	-	270.8	1,294.8	-	1,565.6
	-	353.1	1,839.6	41.5	2,234.2	1.0	397.4	1,294.8	36.7	1,729.9

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.

24. Financial instruments continued

	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
AT 30 SEPTEMBER 2001							
Cash at bank and in hand	106.0	-	-	-	-	-	106.0
Investments	125.5	-	-	-	-	-	125.5
Loans to customers	1,183.5	65.6	115.3	575.1	167.2	39.6	2,146.3
Investment in own shares	-	-	-	-	-	4.8	4.8
Other assets	-	-	-	-	-	20.0	20.0
Total assets	1,415.0	65.6	115.3	575.1	167.2	64.4	2,402.6
Provisions	-	-	-	-	-	(2.3)	(2.3)
Bank loans and overdrafts	(353.1)	-	-	-	-	-	(353.1)
Asset backed loan notes	(1,839.6)	-	-	-	-	-	(1,839.6)
Other liabilities	-	-	-	-	-	(41.5)	(41.5)
Shareholders' funds	-	-	-	-	-	(166.1)	(166.1)
Total liabilities and shareholders' funds	(2,192.7)	-	-	-	-	(209.9)	(2,402.6)
Off balance sheet items	975.7	(64.8)	(114.7)	(565.3)	(230.9)	-	-
Interest rate repricing gap	198.0	0.8	0.6	9.8	(63.7)	(145.5)	-
Cumulative gap	198.0	198.8	199.4	209.2	145.5	-	-

	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
AT 30 SEPTEMBER 2000							
RESTATED							
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	27.5	1,697.2
Investment in own shares	-	-	-	-	-	4.8	4.8
Other assets	-	-	-	-	-	24.0	24.0
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 and shareholders' funds	(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	-	-

'Off balance sheet items' shows the notional principal amount of swap agreements. Included within 'no more than 3 months' are £47.2m (2000: £52.7m) of capped rate mortgages hedged by interest rate cap agreements which reset quarterly.

24. 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.

	2001 GAINS £M	2001 LOSSES £M	2001 TOTAL NET GAINS/ (LOSSES) £M	2000 GAINS £M	2000 LOSSES £M	2000 TOTAL NET GAINS/ (LOSSES) £M
Unrecognised gains and losses on hedges at 1 October 2000	**1.6**	**(4.3)**	**(2.7)**	5.5	(1.9)	3.6
Gains and losses arising in previous years that were recognised in the year	**-**	**0.3**	**0.3**	-	0.2	0.2
Gains and losses arising before 1 October 2000 that were not recognised in the year	**1.6**	**(4.0)**	**(2.4)**	5.5	(1.7)	3.8
Gains and losses arising in the year that were not recognised in the year	**6.1**	**(9.1)**	**(3.0)**	(3.9)	(2.6)	(6.5)
Unrecognised gains and losses on hedges at 30 September 2001	**7.7**	**(13.1)**	**(5.4)**	1.6	(4.3)	(2.7)
Of which:						
Gains and losses expected to be realised in the year to 30 September 2002	**2.5**	**(4.1)**	**(1.6)**	0.6	(1.1)	(0.5)
Gains and losses expected to be realised in the year to 30 September 2003 or later	**5.2**	**(9.0)**	**(3.8)**	1.0	(3.2)	(2.2)

Currency risk

All of the Group's assets and liabilities are denominated in sterling with the exception of £168.7m (2000: £nil) included within 'Asset Backed Loan Notes', which is denominated in euros. As a condition of the issue of these notes, interest rate and currency swaps were put in place for the duration of the borrowing having the effect of converting the liability to a LIBOR linked floating rate sterling borrowing. As a result 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 2001 and 30 September 2000.

	2001 BOOK VALUE £M	2001 FAIR VALUE £M	2000 BOOK VALUE £M	2000 FAIR VALUE £M
DERIVATIVE FINANCIAL INSTRUMENTS HELD TO MANAGE THE INTEREST RATE PROFILE				
Swaps	**-**	**(5.4)**	-	(2.3)
Caps	**2.2**	**2.2**	1.5	1.1

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.

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

	2001 £M	2000 RESTATED £M
Operating profit	**40.5**	35.5
Provision for losses	**12.0**	10.2
Depreciation	**1.2**	1.3
Amortisation of brokers' commissions	**20.1**	12.7
Decrease in stock	**0.3**	0.8
Decrease in debtors	**2.9**	-
Increase / (decrease) in creditors	**3.5**	(2.5)
Net cash inflow from operating activities	**80.5**	58.0

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

	2001 £M	2000 RESTATED £M
(a) CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Net increase in loans to customers	**(321.6)**	(222.9)
Expenditure on other fixed assets	**(1.0)**	(1.7)
Proceeds from sales of other fixed assets	**0.2**	0.4
Acquisition of own shares	**-**	(2.0)
	(322.4)	(226.2)
(b) ACQUISITIONS AND DISPOSALS		
Purchase of subsidiary undertaking	**(3.3)**	-
Net cash acquired with subsidiary	**3.6**	-
	0.3	-
(c) FINANCING		
Exercise of share options	**1.1**	0.1
Increase in loans from banks and others (note 28)	**338.1**	171.4
	339.2	171.5

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

	2001 £M	2000 £M
Increase / (decrease) in cash in year	**36.1**	(12.1)
Cash inflow from increase in debt	**(338.1)**	(171.4)
Cash movement from change in liquid resources	**51.1**	9.9
	(250.9)	(173.6)
Loans acquired with subsidiary	**(162.4)**	-
Movement in net debt in year	**(413.3)**	(173.6)
Net debt at 1 October 2000	**(1,547.9)**	(1,374.3)
Net debt at 30 September 2001	**(1,961.2)**	(1,547.9)

28. Analysis of net debt

	2000 £M	CASH FLOWS £M	ACQUISITIONS EXCLUDING CASH AND OVERDRAFTS £M	**2001 £M**
Cash in hand at bank	70.9	35.1		**106.0**
Overdrafts	(1.0)	1.0		**-**
		36.1		
Debt due after one year	(1,692.2)	(338.1)	(162.4)	**(2,192.7)**
Other liquid resources	74.4	51.1	-	**125.5**
Total	(1,547.9)	(250.9)	(162.4)	**(1,961.2)**

Other liquid resources comprise term deposits with UK banks.

29. Purchase of subsidiary undertaking

	2001 £M
NET ASSETS ACQUIRED:	
Loans to customers	**160.2**
Debtors	**1.9**
Cash at bank and in hand	**3.6**
Creditors	**(162.4)**
	3.3
Goodwill	**-**
	3.3
SATISFIED BY:	
Cash	**3.3**

30. Capital commitments

There were no capital commitments (2000: £nil) contracted but not provided for.

31. Financial commitments

At 30 September 2001 the Group had commitments to make annual payments under operating leases which expire as follows:

	2001 £M	2000 £M
PLANT AND MACHINERY		
Within one year	**0.7**	0.1
Between two and five years	**0.1**	0.4
LAND AND BUILDINGS		
Between two and five years	**0.3**	0.5
Over five years	**3.6**	3.5
	4.7	4.5

notice of annual general meeting

To all shareholders

NOTICE IS HEREBY GIVEN that the thirteenth Annual General Meeting of The Paragon Group of Companies PLC will be held at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ on 31 January 2002 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 2001 and the Reports of the Directors and the Auditors.

2. To declare a dividend.

3. To re-appoint as directors (a) Mr J P L Perry (b) Mr N S Terrington (c) Mr N Keen and (d) Mr C D Newell.

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

As special business

To consider and, if thought fit, to pass resolution 5 as an ordinary resolution and resolutions 6 and 7 as special resolutions:

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 £4,404,200 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 Resolutions

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 £586,400.

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.'

7. 'THAT the Company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 ('the Act') to make one or more market purchases (within the meaning of Section 163 (3) of the Act) on the London Stock Exchange PLC of ordinary shares of 10p each in the capital of the Company ('Ordinary Shares') provided that:-

notice of annual general meeting

a. the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 11,700,000 (representing approximately 10 per cent of the Company's issued ordinary share capital);

b. the minimum price which may be paid for an Ordinary Share is 10p per Ordinary Share;

c. the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market price shown in the quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased;

d. unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company;

e. the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or maybe executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.'

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 2001
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 10.00 a.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 13.

company information

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Auditors

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Chartered Accountants
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Birmingham B3 2BN

Solicitors

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London EC2V 5DB

Registrars and transfer office

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