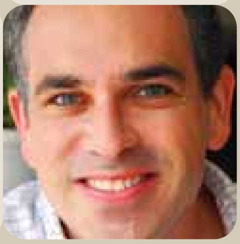
paragon

The Paragon Group of Companies PLC

Annual Report & Accounts 2007







Contents

Financial highlights

9.9%

Increase in profit before tax to £91.0 million (2006: £82.8 million)

11.8%

Increase in fully taxed earnings per share to 57.7p (2006: 51.6p)

34.3%

Increase in buy-to-let loan advances to £4,079.3 million (2006: £3,038.3 million)

39.1%

Increase in buy-to-let portfolio to £10,031.3 million (2006: £7,212.3 million)

	2007 IFRS £m	2006 IFRS £m	2005 Proforma* £m	2005 IFRS Statutory £m	2004 UK GAAP £m	2003 UK GAAP £m
Profit before taxation	**91.0**	82.8	71.7	71.8	71.0	51.9
Profit after taxation	**62.8**	68.8	55.7	55.8	54.7	40.3
Total loan assets	**11,034.9**	8,426.6	6,431.1	6,528.7	5,950.9	5,287.1
Shareholders' funds	**313.3**	279.0	244.4	312.8	268.4	225.3

	2007 IFRS	2006 IFRS	2005 Proforma*	2005 IFRS Statutory	2004 UK GAAP	2003 UK GAAP
Earnings per share						
- basic	**56.8p**	61.2p	48.8p	48.9p	48.0p	35.5p
- diluted	**54.7p**	58.4p	46.8p	46.9p	46.2p	34.8p
Dividend per ordinary share	**8.0p**	17.0p	12.6p	12.6p	9.6p	6.3p

Results for the years ended 30 September 2007, 2006 and 2005 are presented under International Financial Reporting Standards (IFRS).
Results for the years ended 30 September 2004 and 2003 are presented in accordance with UK GAAP.
* For references to the proforma basis see appendix B.

Chairman's statement

The year to 30 September 2007 was highly successful for the Group from a trading perspective, with pre-tax profits, fully taxed earnings, business volumes and loan assets all growing strongly and the Group continuing to increase its market share within the buy-to-let sector whilst maintaining asset quality. However the deep turmoil in the credit markets is affecting the normal financing activities of the business. Whilst we expect the credit markets to recover from the current distressed position during 2008, the timing and extent of the recovery will have an impact on our outlook. In the Funding section we discuss the position of the credit markets and its impact on our business and financing.

Discussions have taken place with our lending banks for renewal of our £280.0 million corporate facility, but the terms available are not attractive, as discussed later in this statement. To ensure that the facility is repaid when it falls due in February 2008, thereby protecting the embedded value of the Group's assets for shareholders, we have entered into a standby underwriting agreement with UBS, supported by a group of our institutional shareholders. This agreement provides us with the ability to launch an underwritten rights issue for up to £280.0 million until 27 February 2008 unless satisfactory alternative funding arrangements have been put in place prior to that time. The main terms of this agreement are detailed in the Funding section below.

During the year, profit on ordinary activities before taxation increased by 9.9% to £91.0 million from £82.8 million in the previous year. However, owing to the reduction in the rate of corporation tax to 28% from next year, the Group's deferred tax assets have been written down, resulting in a one-off increase in the charge rate to 31.0% from a particularly low rate of 16.9% last year. Earnings per share therefore decreased to 56.8p (2006: 61.2p), whilst on a fully taxed basis (note 18) earnings per share increased by 11.8% to 57.7p (2006: 51.6p).

Total advances by the Group increased by 30.0% to £4,436.4 million (2006: £3,412.6 million), of which £4,079.3 million were buy-to-let advances (2006: £3,038.3 million), an increase of 34.3% over the year. Total loan assets at 30 September 2007 increased by 31.0% to £11,034.9 million from £8,426.6 million at 30 September 2006.

In view of the possibility of a rights issue in the near future, the Board considers that it would be inappropriate to return any capital to shareholders until a refinancing has been completed; hence the Group will not pay a final dividend. The Board will reconsider the Company's distribution policy once the funding position for the future is clarified.

FUNDING

Current funding and environment

The Group's lending is funded largely by the securitisation of loan assets, accounting for £9.9 billion of the Group's liabilities at 30 September 2007. New lending is financed by a £2.3 billion warehouse facility provided by a banking syndicate of which £932.0 million was drawn as at 30 September 2007 (2006: £1,112.0 million). In addition, a corporate facility of £280.0 million, also provided by a banking syndicate, is used to fund the Group's working capital requirements together with a long-term bond issue of £120.0 million due in 2017. The Group is not a deposit taker and has no retail depositor base.

Our use of securitisation substantially reduces the Group's liquidity risk by matching the Group's funding maturity profile to the profile of the related assets. Since the floating rate liabilities are matched with floating rate assets which are predominantly LIBOR-linked or fixed rate assets hedged by the use of interest rate swap or cap agreements, the Group's margins are largely protected against movements in market interest rates, underpinning the value of the Group's investments in the portfolios and the ongoing margin derived from the loan assets.

The warehouse facility is an asset backed revolving credit line at a margin for mortgages of 22.5 basis points over LIBOR. The revolving period expires on 29 February 2008, after which date no new drawings may be made to fund new loan completions, although warehouse assets would be funded to maturity at a margin over LIBOR of 67.5 basis points for mortgages with the characteristics of a public securitisation SPV. The cost of this facility is not unattractive in current market conditions and we would expect the assets within it to generate positive margins over their residual lives. The £280.0 million corporate facility falls due for repayment on 27 February 2008. It is currently priced at 90 basis points above LIBOR.

We have conducted extensive discussions with our lending banks for the renewal of the corporate facility and extension of the revolving period of the warehouse facility. Whilst terms for renewal have been offered in principle, they are not attractive for a variety of reasons, including the high cost of such facilities in the current market environment and the short-term nature of the terms available.

The disruption of the capital and banking markets that has spread from difficulties in the United States sub-prime mortgage market has had a significant effect on the cost and availability of credit. Since the summer the securitisation markets have been effectively closed to new issuance and, at the same time, banks have become less willing to renew facilities in the ordinary course. A small number of securitisation transactions were completed in early November by UK and European issuers, which may be the first signs of a return to normality. We expect the credit markets to recover during 2008 but, in the meantime, we have adjusted our business activities in response to the current disruption. This is discussed fully in the Business Review section of the Chief Executive's Review.

Limitations on new funding impact on the value created from new originations rather than on the value embedded within the existing portfolio. This embedded value is represented by the net assets of the business and also the value of the future income stream match-funded to maturity. We are concerned that renewal of facilities on the proposed terms would jeopardise shareholder value. The Board has therefore taken the decision to enter into a standby agreement with UBS which gives the Company up to the end of February 2008 to launch a fully underwritten rights issue to raise up to £280.0 million. This both ensures that current shareholder value does not dissipate and also provides time for the Company to explore all potential options for the refinancing of the corporate facility and new warehouse facilities. This process may include further discussion with the Company's lending banks, releasing excess credit enhancement held within our securitisation SPVs, asset sales and alternative funding instruments. The objective will be to create a stable funding platform for the Group which adequately protects net assets and the value of future revenues from the existing SPV assets for shareholders and to secure new sources of funding to allow the profitable creation of income streams from our lending originations to continue.

Standby underwriting agreement

Under the standby agreement, the Company has the right to require UBS to underwrite, in full, a rights issue of up to £280.0 million, before 27 February 2008. The issue or offer price of any new shares will be determined at the time of launch of the issue in the light of the then prevailing market conditions. The obligation of UBS is subject to normal conditions, including all relevant approvals for the rights issue, including shareholder approval, being obtained; the absence of any material adverse change affecting the Group; and the absence of any force majeure event.

BUSINESS REVIEW AND STRATEGY

The year ended 30 September 2007 was another strong year for buy-to-let and the private rented sector, with demand for rented property running at high levels all year. The Royal Institution of Chartered Surveyors confirmed in September that landlords were experiencing record rental growth and that surveyors expected further strong growth in the coming months. Similarly the latest research from the Association of Residential Letting Agents ('ARLA'), also published in September, reported tenant demand outstripping supply in all areas of the rental market. Both organisations noted that tenant demand has been boosted by higher borrowing costs and growing uncertainty in financial markets as well as high levels of migration from the European Union.

The consumer credit market has remained weak during the year and, as a consequence, our focus within the Consumer Finance division on the quality of lending rather than on volumes continues to be appropriate. As before, we have restricted our activities to areas with a low incidence of arrears with an emphasis on secured lending.

CAPITAL MANAGEMENT

During the year the Company bought 1,445,000 shares in the market at a cost of £8.1 million with the result that by 30 September 2007 a total of 6,689,000 shares had been repurchased since the buy-back programme was announced in 2005, at a total cost of £39.5 million. Given current conditions and the appropriateness of preserving liquidity, the Board has decided to suspend the buy-back programme until further notice.

Over the period we have continued to reduce the risk profile of the Group's loan assets through a disciplined restructuring of the portfolio from unsecured towards less capital-demanding secured lending. In addition, the more capital-demanding closed books have continued to decline, both from natural run-off and from ongoing disposals. Further asset sales may be considered, as appropriate, to supplement the organic run-down strategy.

BOARD CHANGES

As we reported last year, Gavin Lickley, a non-executive director since 2002, retired from the Board in October 2006 and we thank him for his service and commitment during the years of his association with the Group.

Jonathan Perry, the former Chairman, retired from the Board in February 2007, after fifteen years of service and I was appointed Chairman at that time. Jonathan Perry led the Group from the early 1990s as it developed its current range of business operations and the Board expresses its thanks to him for his consistently outstanding performance and contribution.

Terry Eccles joined the Board in February 2007 as an independent non-executive director. Formerly Vice-Chairman of JPMorgan Cazenove, Terry brings to the Board considerable experience in the financial sector.

STAFF

The excellent progress we have made during the year would not have been achieved without the hard work and dedication of our staff and my fellow directors. I thank them all for their efforts.

OUTLOOK

For the past twelve years the Group has pursued a strategy of careful growth in core markets which offer high quality loan assets, funded portfolio by portfolio to maturity through the securitisation markets. This has produced consistent profit growth over the period.

The Group has achieved record profits in 2007, the majority of which have arisen from the Group's buy-to-let businesses, a sector with strong credit defensive qualities and long-term growth prospects, reflecting increasing structural demand for rented property in the UK.

The present travails of the credit market coinciding with the expiry of our syndicated credit facilities have created uncertainties over the Group's future funding in the near term. Whilst we expect the capital markets to recover during 2008, it is important that we manage our new business generation cautiously to ensure that new originations remain profitable, but also, fundamentally, to protect the embedded value in the current portfolio.

The strength of profits in 2007 reflects the quality of income generated from match-funded assets within existing securitisation vehicles, largely insulated, as they are, from the sharp rise in the cost of credit. However the high cost and short-term nature of replacement banking facilities are unattractive in the current environment and we believe they would significantly erode shareholder value.

For this reason, we have arranged the standby underwriting agreement referred to above which, if called upon, will enable the repayment of the £280.0 million corporate facility due at the end of February 2008. This will provide an opportunity to explore alternative funding sources, and to seek new warehousing arrangements for new lending activity in 2008 and beyond.

The prospects of the Group in the current year will depend substantially on the reopening of the securitised funding markets to enable the Group to return to normal levels of writing new business. If we are unable to secure new warehouse facilities or alternative sources of access to the securitisation market, we will have to scale back new lending activities significantly and manage costs accordingly. Over a prolonged period this would have a negative impact on our franchise. However, the embedded value of our existing portfolio of assets remains strong and we expect it to continue to generate sound profits and cash flow in the future.

We firmly believe that the private rented sector will continue to see growth for many years to come. The investment required to enable this expansion will have to be financed and therefore the Group's key products will remain in demand. The current environment, whilst immensely disruptive, is driven by market-wide funding concerns and the actions taken by the Group will ensure that the embedded value in the business is protected whilst providing a base for future profitable lending when credit markets recover.

Robert G Dench
Chairman

22 November 2007

Chief Executive's review

During the year ended 30 September 2007 the Group advanced strongly, with profit before tax increasing by 9.9% to £91.0 million from £82.8 million in the previous year.

Total loan assets at 30 September 2007 increased by 31.0% to £11,034.9 million from £8,426.6 million at 30 September 2006. Total advances by the Group increased by 30.0% to £4,436.4 million (2006: £3,412.6 million), of which £4,079.3 million were buy-to-let advances (2006: £3,038.3 million), an increase of 34.3% over the year.

FINANCIAL REVIEW

CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2007

	2007 £m	2006 £m
Interest receivable	**747.5**	550.8
Interest payable and similar charges	**(591.7)**	(407.9)
Net interest income	**155.8**	142.9
Income from associate	**0.2**	-
Other operating income	**28.9**	30.6
Total operating income	**184.9**	173.5
Operating expenses	**(47.7)**	(45.4)
Provisions for losses	**(50.5)**	(47.8)
	86.7	80.3
Fair value net gains	**4.3**	2.5
Operating profit being profit on ordinary activities before taxation	**91.0**	82.8
Tax charge on profit on ordinary activities	**(28.2)**	(14.0)
Profit on ordinary activities after taxation	**62.8**	68.8
Dividend - Rate per share	**8.0p**	17.0p
Basic earnings per share	**56.8p**	61.2p
Diluted earnings per share	**54.7p**	58.4p

The Group is organised into two major operating divisions: First Mortgages, which includes the buy-to-let and owner-occupied first mortgage assets and other sources of income derived from first charge mortgages; and Consumer Finance, which includes secured lending, car and retail finance and the residual unsecured loan book. These divisions are the basis on which the Group reports primary segmental information. This is a change from the basis reported in 2006 in that the closed, owner-occupied first mortgage book, which at 30 September 2007 amounted to £293.8 million, and the closed, unsecured book of £56.9 million, both of which comprised the "Other Operations" category last year, are now included within the First Mortgages and Consumer Finance segments respectively. For reporting purposes these books were absorbed within the results from the two main business areas because their reduced size had rendered the Other Operations segment insignificant in terms of assets, revenue and net profits.

The operating results of these adjusted business segments are detailed fully in note 5 to the accounts and are summarised below.

	2007 £m	2006 £m
Operating result		
First Mortgages	**81.8**	60.5
Consumer Finance	**9.2**	22.3
	91.0	82.8

During the year, we saw four quarter point increases in base rates and, by virtue of a market expectation of rising rates, three-month LIBOR, in particular, has been higher than base rates throughout the year. This has had an adverse impact on margins, most noticeably in the Consumer Finance division, where pricing is primarily set against base rates. In addition the change in business mix in favour of first mortgages, which are of higher credit quality than consumer finance loans, has resulted in a slight narrowing of overall margins, although margins within the first mortgage businesses have remained broadly similar to those in 2006. The growth of the loan book resulted in net interest income increasing by 9.0% to £155.8 million from £142.9 million.

Partially compensating for this, the rising interest rate environment had a positive effect on fair value net gains of £4.3 million (2006: £2.5 million), which have arisen from the IFRS requirement that movements in the fair value of hedging instruments attributable to ineffectiveness in the hedging arrangements should be credited or charged to income and expense.

Other operating income reduced slightly to £28.9 million, from £30.6 million in 2006 attributable to a reduction in activity within the Consumer Finance division, where other operating income decreased by 22.4%. This was offset by an increase of 19.5% within First Mortgages as a result of increased buy-to-let activity during the year. An increased proportion of this income has arisen from fees rather than commissions, reflecting a continuation of the decline in insurance related income in the Consumer Finance division reported last year.

Our continuing focus on cost effectiveness has resulted in a further reduction in the cost:income ratio, to 25.2% from 25.8% (Appendix A). Operating expenses were £47.7 million, compared with £45.4 million for 2006.

The charge for loss provisions of £50.5 million compares with £47.8 million for 2006. As a percentage of loans to customers the charge, at 0.46%, is lower than the charge of 0.57% for 2006. Of the total charge, only £3.7 million, or 7.3%, relates to First Mortgages, with £1.5 million of this relating to the closed, owner-occupied book. The charge in respect of Consumer Finance includes amounts in respect of income which, although accounting standards require it to be recognised, is not expected to be received by the Group and hence also increases the charge for loan impairment. Under UK GAAP such income was not recognised. The loan book continues to be carefully managed and the arrears performance remains in line with our expectations, with the performance of the buy-to-let book remaining exemplary.

The effective tax rate, at 31.0%, is slightly higher than the normal corporation tax rate. This results from applying the reduced future corporation tax rate of 28% to the Group's deferred tax assets, which are expected to unwind over a period of up to ten years. We expect the charge to be at or slightly below the corporation tax rate next year.

Profits after taxation of £62.8 million have been transferred to shareholders' funds, which totalled £313.3 million at the year-end.

BUSINESS REVIEW

NEW BUSINESS VOLUMES

Year ended 30 September 2007

	2007 £m	2006 £m	**2007 Number**	2006 Number
First Mortgages				
Buy-to-let	**4,079.3**	3,038.3	**30,113**	24,273
Other	**0.3**	1.9	**18**	70
	4,079.6	3,040.2	**30,131**	24,343
Consumer Finance				
Secured lending	**205.8**	218.0	**7,045**	7,528
Car Finance	**70.8**	82.2	**3,687**	4,867
Retail Finance	**80.2**	72.2	**42,230**	38,930
	356.8	372.4	**52,962**	51,325
	4,436.4	3,412.6	**83,093**	75,668

FIRST MORTGAGES

The latest data published by the Council of Mortgage Lenders ("CML") supports the picture of a strong buy-to-let sector, both in absolute terms and particularly when set against a softening owner occupier market. According to the CML, buy-to-let lending represented 12% (£21.2 billion) of all new mortgage advances in the first half of 2007, the highest proportion since the launch of buy-to-let in 1996. Furthermore, the stock of buy-to-let mortgages increased to £108 billion, an increase of 14% since the second half of 2006, with buy-to-let accounting for 1 in 10 of all outstanding mortgages. This clearly reflects the scale of the private rented sector in the United Kingdom relative to the housing market as a whole. The CML data also confirms the continuing superior credit quality of buy-to-let mortgages, with both arrears and possessions significantly lower than for the market in general. The CML attributes this quality differential in part to persistently strong tenant demand, shorter void periods and rising rents.

During the year ended 30 September 2007 Paragon's two buy-to-let brands, Paragon Mortgages and Mortgage Trust, both benefited from these strong trading conditions. Buy-to-let mortgage advances by the Group were £4,079.3 million for the year (2006: £3,038.3 million), an increase of 34.3%. This strong lending performance produced a 39.1% increase in buy-to-let assets to £10,031.3 million from £7,212.3 million. This strong growth has its roots in the two distinct propositions offered by our two brands and in the excellent relationships the mortgage business has developed with individual intermediaries and mortgage adviser networks. Paragon has been successful in focusing on distribution and service and has maintained its strong stance on credit quality, with the arrears performance of the book remaining exemplary.

In response to the recent difficulties in the credit markets, we have taken steps to reduce the origination flow whilst the cost of funding from the capital markets remains uncertain, so as to limit the risk of writing new business at unprofitable margins. This has been achieved by the withdrawal of a number of our first mortgage products and by increasing the pricing on others. We anticipate that volumes in the first half of 2008 will be around half the levels in the corresponding period of 2007. The slow down is being managed carefully with products directed at key intermediary relationships who have the potential to provide increased volumes when markets stabilise, as well as providing continuing new lending support for our existing landlord customers.

The rate of redemptions remained low during 2007, at a similar level to 2006, at just under 15%. ARLA's September survey data continues to demonstrate that landlords, on purchasing properties for rental, expect to hold the properties for an average of sixteen years.

As part of the Group's aim to ensure that we are operationally efficient, we are rationalising our first mortgage processing function. This will result in the migration of Mortgage Trust's new business processing function from Epsom to Solihull, from where we will support both brands. This will be likely to result in a reduction of more than 60 positions in our Epsom office.

The owner-occupied book reduced to £293.8 million from £431.5 million during the year ended 30 September 2007 and performed in line with expectations. During the year balances with a book value of £4.5 million were sold. Save for the management of this book in run-off, there has been little activity in recent years in this area as the Group has focussed originations on buy-to-let.

CONSUMER FINANCE

Aggregate loan advances were £356.8 million during the year, a decrease of 4.2% from £372.4 million in the previous year. As at 30 September 2007, the total loans outstanding on the Consumer Finance books were £709.8 million, compared with £782.8 million at 30 September 2006.

Arrears levels continue to remain stable and at low levels, in line with expectations.

Personal finance

Secured personal advances were £205.8 million during the year, a reduction of 5.6% from £218.0 million for the previous year. Despite the intensely competitive environment, a gradual tightening of criteria within the prime secured second charge market has been in evidence as the year has progressed. Whilst this change to a credit stance closer to that of Paragon Personal Finance has led to the business enjoying an improving market position, the overall tightening of criteria has had an adverse effect on the broker-introduced personal finance market. We do not, therefore, anticipate that business volumes will benefit from improved market share in the short term, although we do expect an improvement as we move through 2008.

Insurance sales continue to diminish in the wake of negative sentiment for the products, a trend we expect to continue. To address the fall in commission revenue, we have introduced lender arrangement fees and adjusted our loan pricing. We expect further re-pricing when the £25,000 threshold for Consumer Credit Act regulated lending is abolished in April 2008.

The closed unsecured book continues to run down in accordance with our expectations. The book totalled £56.9 million at 30 September 2007, compared to £73.1 million a year before. During the period, balances with a book value of £5.3 million were sold and similar disposals are expected in the coming year.

Sales aid finance

New business volumes were £151.0 million (2006: £154.4 million) and were in line with our expectations. Both retail and car markets experienced contracting volumes throughout the year as consumers, concerned about affordability, became more wary of committing to large purchases. Given this environment the business again tightened its underwriting criteria, the result of which has been a further improvement in the credit quality of new business.

Throughout the year the key focus for the business has been on improving profitability and increasing operational efficiency, both of which have been achieved without compromising service standards or portfolio quality.

SECURITISATION ACTIVITY

Prior to the present period of market turmoil, the Group was an active issuer in the capital markets. In October 2006, a £1.5 billion buy-to-let securitisation was completed by Paragon Mortgages (No. 13) PLC; in January 2007, a £268.6 million securitisation to repackage certain older, owner-occupied, loan assets was completed by First Flexible (No. 7) PLC; in March 2007, a further £1.5 billion buy-to-let securitisation was completed by Paragon Mortgages (No. 14) PLC; and in July 2007, a £1.0 billion buy-to-let securitisation was completed by Paragon Mortgages (No. 15) PLC.

For the avoidance of doubt, Paragon has no involvement in the US mortgage market nor any investment, directly or indirectly, in US sub-prime mortgage backed securities, specialised investment vehicles, collateralised debt obligations or similar vehicles.

Nigel S Terrington
Chief Executive

22 November 2007

Board of Directors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1. Robert G Dench
Chairman
Age 57

Bob Dench joined Paragon as a non-executive director in September 2004 and was appointed Chairman in February 2007. During an extended career with Barclays he held a number of senior positions in the UK and overseas, leaving in 2004. He is also a non-executive director of AXA UK plc and AXA Ireland Limited and of Clipper Ventures plc.

2. Nigel S Terrington
Chief Executive
Age 47

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 Board member of the Finance and Leasing Association and is also Chairman of the FLA Consumer Finance division. He previously held the position of Chairman of the Intermediary Mortgage Lenders Association and was also a member of the Executive Committee of the Council of Mortgage Lenders.

3. Nicholas Keen
Finance Director
Age 49

Nick 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 Paragon Credit Committee.

4. John A Heron
Director of Mortgages
Age 48

John Heron joined the Group in January 1986. He was appointed as Marketing Director in 1990 and in 1994 played a pivotal role in re-establishing the Group's mortgage lending operations as Managing Director of Paragon Mortgages. As Director of Mortgages, he is responsible for both Paragon Mortgages and Mortgage Trust. He is a Fellow of the Chartered Institute of Bankers and a member of the Executive Committee of the Council of Mortgage Lenders.

5. Pawan Pandya
Chief Operating Officer
Age 43

Pawan Pandya joined the Group in December 1988. He was appointed as Chief Operating Officer in July 2002, responsible for operational and IT areas of the Group. Prior to joining Paragon, he worked in foreign exchange, credit risk management, marketing and corporate finance.

6. David M M Beever
Non-Executive Director
Age 66

David Beever joined Paragon as a non-executive director in August 2003. He is Vice-Chairman of London & Continental Railways Ltd and a non-executive director of JJB Sports plc and Volex Group plc. He was previously a Vice-Chairman of SG Warburg & Co Ltd and Chairman of KPMG Corporate Finance. He is the Senior Independent Non-Executive Director.

7. Christopher D Newell
Non-Executive Director
Age 47

Christopher Newell has been a director of Altium Capital Limited since 1990. He was a director of Artemis Investment Management Limited from its formation until 2006. He is a Chartered Accountant and joined the Board of Paragon as a non-executive director in November 2001. He is Chairman of the Paragon Audit and Compliance Committee.

8. Terence C Eccles
Non-Executive Director
Age 61

Terry Eccles joined Paragon as a Non-Executive Director on 1 February 2007. He was previously Vice Chairman of JPMorgan Cazenove. Since joining the JPMorgan Group in 1970 he held a wide range of roles in London, New York and Hong Kong. Since 1986 he was involved with the development of the firm's financial institutions business, becoming its head and then chairman. He has advised on many of the more significant transactions in the financial services industry.

Directors' report

The directors submit their Report and the Accounts for the year ended 30 September 2007 which were approved by the Board on 22 November 2007.

Principal activities

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 first mortgage and consumer finance businesses.

Results and dividends

The results for the year are shown in the Consolidated Income Statement on page 38. The directors recommend no final dividend (2006: 10.1p per share) which, given the interim dividend of 8.0p per share (2006: 6.9p per share) paid on 27 July 2007, means a total dividend for the year of 8.0p per share (2006: 17.0p per share). Before dividends, retained profits of £62.8 million (2006: £68.8 million) have been transferred to reserves.

Business review

The requirement under the Companies Act 1985 to provide a business review is met by the sections of the Chairman's Statement headed 'Funding', 'Business Review and Strategy', 'Capital Management' and 'Outlook' on pages 3 to 7 and the Chief Executive's Review on pages 8 to 11 which contain a review of the Group's business during the financial year, its current position and future prospects.

The Group presents its policies in relation to corporate social responsibility and issues such as community involvement, the fair and equal treatment of staff, employment of disabled persons, employee participation, health and safety, commitment to diversity and the environment in the Corporate Social Responsibility Report on pages 16 to 17. This report also gives information on the Group's charitable activities.

Information on the Group's approach to managing financial risk is given in note 4 to the accounts.

Details of events taking place after the balance sheet date are given in note 57.

Directors

The interests of the directors at the year end in the share capital of the Company, all beneficially held, are shown opposite.

	AT 30 SEPTEMBER 2007 ORDINARY SHARES OF 10P EACH	AT 30 SEPTEMBER 2006 OR ON APPOINTMENT ORDINARY SHARES OF 10P EACH
R G Dench	45,000	20,000
N S Terrington	177,573	120,170
N Keen	88,063	54,390
J A Heron	44,127	14,303
P Pandya	167,556	117,365
D M M Beever*	10,000	10,000
C D Newell*	30,000	20,000
T C Eccles*	-	-

* Non-executive directors.

In addition, certain directors had interests in the share capital of the Company by virtue of options granted under the Company's executive share option schemes and awards under the Paragon Performance Share Plan, the Deferred Bonus Scheme and the Matching Share Plan, details of which are given in the Report of the Board to the Shareholders on Directors' Remuneration on pages 18 to 28.

There have been no changes in the directors' interests in the share capital of the Company since 30 September 2007.

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

Mr G A F Lickley resigned from the Board of Directors on 12 October 2006, and Mr J P L Perry retired from the Board by rotation and did not offer himself for re-appointment at the Annual General Meeting on 8 February 2007.

Mr T C Eccles was appointed to the Board on 1 February 2007.

In accordance with the Articles of Association, Mr R G Dench, Mr N Keen and Mr C D Newell will retire from the Board at the forthcoming Annual General Meeting. Mr R G Dench, Mr N Keen and Mr C D Newell, being eligible, will offer themselves for re-appointment. 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.

Purchase of own shares

During the year ended 30 September 2007 the Company has, as part of a £40.0 million (2006: £40.0 million) repurchase programme, repurchased 1,445,000 shares (2006: 3,454,000) having an aggregate nominal value of £144,500 (2006: £345,400) at a cost of £8.1 million (2006: £23.1 million). These shares represent 1.3% of the issued share capital of the Company (excluding treasury shares) (2006: 3.0%). This brings the total number of shares acquired as part of the programme to 6,689,000 (2006: 5,244,000). All of these shares were held as at 30 September 2007 as treasury shares and this holding represents the maximum number of its own shares held by the Company at any time during the past year. The reasons for the repurchase programme are as set out in the announcement made by the Company through RNS on 25 May 2005.

Substantial shareholdings

As at 31 October 2007, 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	PERCENTAGE HELD
Veer Palthe Voute NV	9,458,430	8.24%
BlackRock Merrill Lynch Investment Management	8,538,250	7.44%
M & G Investment Management	8,375,249	7.30%
Standard Life Investments	6,827,442	5.95%
Scottish Widows Investment Partnership	6,197,253	5.40%
Rathbone Investment Management	5,439,812	4.74%
Oppenheimer Capital	5,208,880	4.54%
Legal & General Investment Management	5,147,201	4.48%
Schroder Investment Management	4,805,598	4.19%
Threadneedle Asset Management	4,706,813	4.10%

Charitable contributions

Contributions to charitable institutions in the United Kingdom amounted to £65,161 (2006: £90,531).

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

The directors have taken all necessary steps to make themselves and the Company's auditors aware of any information needed in preparing the audit of the Annual Report and Financial Statements for the year, and, as far as each of the directors is aware, there is no relevant audit information of which the auditors are unaware.

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

Annual General Meeting

A notice convening the Annual General Meeting of the Company is being circulated to shareholders with this Annual Report and Accounts.

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

John G Gemmell
Company Secretary

22 November 2007

Corporate social responsibility

The Group believes that the long-term interests of shareholders, employees and customers are best served by acting in a socially responsible manner. As such, the Group ensures that a high standard of corporate governance is maintained.

Commitment to our customers

The Group places the needs of customers at the heart of its day-to-day operations. With a commitment from the Board, fairness to customers is a key consideration and objective at all stages of the lifetime of a loan.

Training and development

The Group has been accredited under the 'Investors in People' scheme since 1997. This demonstrates the Group's commitment to the training and development of employees. The staff appraisal system is designed to assist employees in developing their careers and to identify and provide appropriate training opportunities. The corporate training and development strategy focuses on providing opportunities to develop all its staff and is central to the achievement of the Group's business objectives.

Equality and diversity

The Group is committed to providing a working environment in which employees feel valued and respected and are able to contribute to the success of the business, and to employing a workforce that recognises the diversity of customers. Employees are requested to co-operate with the Group's efforts to ensure the policy is fully implemented.

The Group's aim is that its employees should be able to work in an environment free from discrimination, harassment and bullying and that employees, job applicants, customers, retailers, business introducers and suppliers should be treated fairly regardless of:

- race, colour, nationality (including citizenship), ethnic or national origins
- gender, sexual orientation, marital or family status
- religious or political beliefs or affiliations
- disability, impairment or age
- real or suspected infection with HIV/AIDS
- membership of a trade union

and that they should not be disadvantaged by unjust or unfair conditions or requirements.

Composition of the workforce is reviewed on an annual basis and employee satisfaction with equality of opportunity is monitored as part of the regular employee feedback surveys. Human Resources policies are reviewed regularly to ensure that they are non-discriminatory and promote equality of opportunity. In particular, recruitment, selection, promotion, training and development policies and practices are monitored to ensure that all employees have the opportunity to train and develop according to their abilities.

Employees' involvement

The directors recognise the benefit of keeping employees informed of the progress of the business. The Group sponsors a Staff Forum, attended by elected staff representatives from each area of the business, which exists primarily to facilitate communication and dissemination of information throughout the Group and provides a means by which employees can be consulted on matters affecting them.

Employees are provided with regular information on the performance and plans of the Group, and the financial and economic factors affecting it, through information circulars and presentations.

The Company operates a Sharesave share option scheme and a profit sharing scheme, both of which enable eligible employees to benefit from the performance of the business.

The directors encourage employee involvement at all levels through the staff appraisal process and communication between directors, team leaders, teams and individual employees.

Environmental policy

The Group complies with all applicable laws and regulations relating to the environment and operates a Green Charter, which:

- ensures all buildings occupied by the Group are managed efficiently by its Facilities Team and Building Surveyor
- provides facilities to enable employees to re-cycle used products
- controls business travel and provides opportunities for employees to travel to work in various ways; i.e. providing cycle racks and showers (where possible)
- displays a Paragon Green Charter at all sites to encourage employees to be environmentally friendly at all times
- ensures liaison with the local community
- ensures redundant IT equipment is disposed of within current directives/regulations (WEEE - Waste Electrical and Electronic Equipment). 98% of such equipment is re-cycled

Health and Safety policy

It is the Group's policy to comply with the terms of the Health and Safety at Work Act 1974, and subsequent legislation, and to provide and maintain a healthy and safe working environment. The health and safety objective of the Group is to minimise the number of instances of occupational accidents and illnesses and ultimately achieve an accident-free workplace.

The Group recognises and accepts its duty to protect the health and safety of all visitors to its premises, including contractors and temporary workers, as well as any members of the public who might be affected by our operations.

While the management of the Group will do all within its power to ensure the health and safety of its employees, it is recognised that health and safety at work is the responsibility of each and every individual associated with the Group. It is the duty of each employee to take reasonable care of their own and other people's welfare and to report any situation which may pose a threat to the well-being of any other person.

Health and safety policies and procedures are managed by the Group's Property Services team who liaise with senior management and Human Resources as necessary. External consultants are employed and regular meetings are held with Group Property Services. The consultants also attend senior management meetings twice a year.

All employees are provided with such equipment, information, training and supervision as is necessary to implement the policy in order to achieve the above stated objective. The Group makes available such finances and resources deemed reasonable to implement this policy.

All injuries, however small, sustained by a person at work must be reported. Accident records are crucial to the effective monitoring and revision of the policy and must therefore be accurate and comprehensive.

The Group recognises the civil and moral need to ensure that all employees adhere to this health and safety policy and is prepared to invoke the disciplinary procedure in case of any deliberate disregard for the health and safety policy.

The Group's health and safety policy is continually monitored and updated, particularly when changes in the scale or nature of our operations occur. The policy is updated at least every twelve months.

Charitable contributions

The Group contributes to registered charities serving the local communities in which it operates. Included in the charitable contributions shown in the Directors' Report are contributions of £52,315 (2006: £59,625) made by the Group to the work of the Foundation for Credit Counselling which operates the Consumer Credit Counselling Service. The Group has also contributed to charities throughout the year by way of single donations.

The Group's main objective is to support children's and local charities although no charity request is overlooked. During the last year the Group has helped many and varied charities and causes such as: Children with Leukaemia, Well Child, Handicapped Childrens' Action Group, Kids in Action, NSPCC, Samantha Dickson Brain Tumour Trust, Shelter, Mencap and local schools.

The Group also supports Paragon's Charity Committee, consisting of volunteer employees, which organises a variety of fundraising activities throughout the year, raising in the region of £23,000 for the employees' chosen charity. All employees are given the opportunity to nominate a charity and a vote is carried out to select the beneficiary of the year's fundraising.

Report of the Board to the shareholders on directors' remuneration

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and also sets out how the principles of the Combined Code on Corporate Governance relating to executive directors' remuneration are applied by the Group. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company.

Certain parts of this report are required to be audited. Where disclosures are subject to audit, they have been marked as such.

UNAUDITED INFORMATION

Remuneration Committee

At the beginning of the year, the Committee consisted of three independent non-executive directors: Gavin Lickley (who chaired the Committee), David Beever and Robert Dench, together with the Chairman of the Company, Jonathan Perry. Gavin Lickley and Jonathan Perry retired from the Board on 12 October 2006 and 8 February 2007 respectively. Following his appointment to the Board on 1 February 2007, Terence Eccles was appointed Chairman of the Remuneration Committee. At the year end the members of the Committee were Terence Eccles, David Beever and Robert Dench. The Company is in the process of appointing a further independent non-executive director who will join the Committee.

None of the non-executive directors who sit on the Committee has any personal financial interest (other than as a shareholder), conflict of interest arising from cross-directorships or day-to-day involvement in running the business. The Chairman of the Company does not participate in discussions on his own remuneration.

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

The terms of reference of the Committee are available on request from the Company Secretary.

In determining the directors' remuneration for the year, the Committee consulted Mr J P L Perry (Chairman), Mr N S Terrington (Chief Executive) and Mr C D Newell (non-executive director) about its proposals. The Committee also utilised New Bridge Street Consultants LLP to provide advice on structuring directors' remuneration packages. New Bridge Street Consultants LLP and Towers Perrin advised the Company on various sundry remuneration matters during the year.

Remuneration policy for the Chairman and executive directors

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

In forming and reviewing remuneration policy the Committee has given full consideration to the Combined Code on Corporate Governance and has complied with the Code's provisions relating to directors' remuneration throughout the year.

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 and comparably sized FTSE 350 companies from all sectors.

The executive directors receive a combination of fixed and performance-related elements of remuneration. Fixed remuneration consists of salary, benefits in kind and pension scheme contributions (see under 'Pension contributions' opposite). Performance-related remuneration consists of participation in the annual bonus plan, the award of shares under the performance share plan and participation in the award of shares under the matching share plan from time to time. The performance-related elements of remuneration are intended to provide a significant proportion of executive directors' potential total remuneration.

Salary

The Chairman's fees and executive directors' salaries are determined by the Committee at the beginning of each year. In deciding appropriate levels, the Committee considers remuneration levels within the Group as a whole, individual and business performance during the year and relies on objective research which gives up-to-date information on comparable companies. Directors' contracts of service will be available for inspection at the Annual General Meeting.

Pension contributions

During the year the executive directors were members of the Group Retirement Benefits Plan, to which the Company contributes at the same rate as for all members. Dependants of executive directors who are members of the Group Retirement Benefits Plan are eligible for a dependant's pension and the payment of a lump sum in the event of death in service. The pension arrangements provide for a pension of 1/37.5 of basic annual salary (to a maximum of 2/3) for every year of eligible service. Where pension contributions are capped, additional payments are made to enable further provision. The executive directors contribute 5% of eligible salary as participants in the Plan. Three of the executive directors suspended their contributions to the Plan, and the accrual of benefits, prior to the beginning of the year.

Each director affected by the 2006 "A Day" changes is offered the opportunity to terminate permanently further contributions in exchange for a cash supplement calculated to equate to the cost of the Company's contributions towards the executive's future service benefits had he stayed within the Plan for his future service accrual.

The changes in pension entitlements arising in the financial year, the disclosure of which is required by the Financial Services Authority, are given on page 23. 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.

Performance bonuses

The executive directors participate in an annual bonus scheme under which awards are determined by consideration of several business-specific financial measures, including profit before tax and earnings per share ("EPS") but also including measures relevant to current business plans and objectives. Consideration is also given to individual executive performance. Bonuses are normally paid in November but are accrued in the year to which they relate.

The total target bonus for executive directors is 100% of salary, total stretch bonus is 150% of salary and the bonus payable under the bonus scheme is capped at 200% of salary. (The enhanced levels of bonus will only be triggered by performance levels in excess of those currently required to receive a stretch bonus). One quarter of the bonus is compulsorily deferred in the form of shares, such shares being deemed to be acquired at the average price during the last five dealing days in the September preceding the award. The shares will vest after three years and may be forfeitable if the director were to leave the Company during that time.

The Chairman and non-executive directors are not entitled to receive a bonus and do not participate in the performance or matching share plans.

In determining the level of annual bonus awards for the year ended 30 September 2007, the Committee compared the actual performance of the Company with a series of financial, operational, funding and shareholder value targets agreed at the start of the year by the Committee and the Chief Executive. The targets were based on a business plan which had been prepared using assumptions of stretched performance.

When considering the level of awards, the Committee also considers the performance of individual directors and executives. Approximately 25% of the potential bonus award for each individual is dependent on an assessment by the Committee of personal performance. The Committee made the appropriate assessments of individual performance necessary to justify the relevant awards.

In the intensely competitive environment within the sector, the overall performance of the Group, together with the exceeding of key financial performance targets and individual performance, justified the award of bonuses appropriate to a 'stretch' level.

Share awards

In prior years, executive directors received grants of share options under the Paragon 2000 Executive Share Option Scheme ("ESOS"). Executive directors no longer receive share option grants under the ESOS. The ESOS has been retained but grants of share options will only be made in exceptional circumstances, such as recruitment.

The executive directors remain entitled to receive options under the Paragon 1999 Sharesave Scheme, on the same terms as other employees.

Paragon Performance Share Plan ("PSP")

The PSP has an annual award limit to an individual of shares worth 200% of salary.

PSP awards granted prior to 30 September 2005 are subject to performance testing conditions based on comparing the total shareholder return ("TSR") generated in respect of the Company with the TSR for a group of similar companies.

50% of PSP awards made after 30 September 2005 are subject to an EPS test and 50% to a TSR test. The growth in the Company's EPS (as adjusted for a common rate of corporation tax) and its TSR will be compared over a single three-year period to the performance of the following companies: Alliance & Leicester, Barclays, Bradford & Bingley, Cattles, Egg (until its delisting on 20 February 2006), HBOS, Hitachi Capital (until its delisting on 9 August 2007), HSBC, Kensington Group (until its delisting on 8 August 2007), Lloyds TSB, London Scottish Bank, Northern Rock, Provident Financial, Royal Bank of Scotland.

35% of each element of the PSP award will vest for median performance with full vesting for upper quartile performance; between these points awards will vest on a straight line basis. For below median performance, none of the relevant element of the award will vest. In addition, the Remuneration Committee will have regard to the underlying financial performance of the Company as compared with the level of TSR and EPS performance when determining whether to scale back the level of awards that will ultimately vest.

TSR and EPS have been selected as the performance measures for these awards since they provide a balance of internal and external measures to incentivise and reward executives more effectively, whilst also aligning the interests of executives with those of other shareholders. The Company's TSR performance and the TSR and EPS performance of the peer companies will be independently calculated by New Bridge Street Consultants LLP before being reviewed and confirmed by the Remuneration Committee.

Awards under the scheme are made quarterly.

Paragon Matching Share Plan ("MSP")

Under the terms of the MSP, executive directors and senior management are invited to invest in shares in the Company out of their after-tax cash bonus. Assuming that the executives decide to invest, the shares so acquired must remain held by the executives for three years. At the end of the three-year period and, subject to satisfaction of the same performance conditions as set out for the PSP above, the executives will receive a match in shares on a two-for-one basis related to the number of shares which could have been purchased with the pre-tax equivalent of the bonus invested.

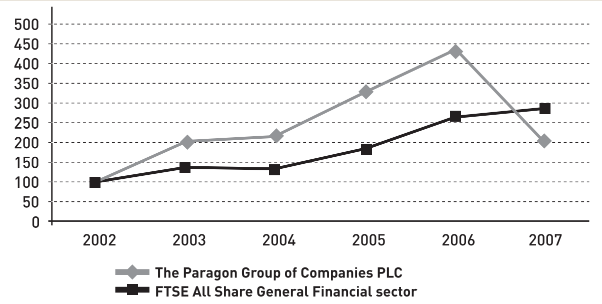
Currently, executive directors are invited to invest the after-tax equivalent of up to 25% of salary; at such a level, their award would be over 'free' matching shares worth 50% of salary.

The plan provides the facility to increase the level of potential investment up to the after-tax equivalent of 50% of salary should the Remuneration Committee feel in future years that this would be appropriate.

Performance graph

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE All Share General Financial sector index, also measured by TSR. The General Financial sector has been selected for this comparison because it is the sector index that contains the Company's shares.

5 Year Return Index for the FTSE All Share General Financial sector as at 30 September 2007



This graph shows the value, by 30 September 2007, of £100 invested in The Paragon Group of Companies PLC on 30 September 2002, compared with £100 invested in the FTSE General Financial sector index. The other points plotted are the values at the intervening financial year ends.

Directors' contracts

The Chairman and executive directors hold one year rolling contracts in line with current market practice and the Remuneration Committee reviews the terms of these contracts regularly.

The current contracts are dated as follows:

R G Dench	-	8 February 2007
N S Terrington	-	1 September 1990 (amended 16 February 1993 and 30 October 2001)
N Keen	-	6 February 1996 (amended 30 October 2001)
J A Heron	-	1 September 1990 (amended 14 January and 8 February 1993)
P Pandya	-	1 October 1994

In the event of early termination, the directors' contracts provide for the payment of one year's fees / salary in lieu of notice.

Of the directors seeking re-election at the Annual General Meeting, Mr R G Dench and Mr N Keen each has a service contract with the Company.

None of the executive directors currently earns remuneration from external non-executive appointments.

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. From 1 April 2007 all non-executive directors have been paid an annual base fee of £30,000 plus £2,000 for membership of each committee, £10,000 for Remuneration Committee and Audit and Compliance Committee chairmanship and £6,000 for acting as the Senior Independent Director.

Current terms of engagement apply for the following periods:

C D Newell	-	1 November 2004 to 1 November 2007
D M M Beever	-	8 August 2006 to 8 August 2009
T C Eccles	-	1 February 2007 to 1 February 2010

Non-executive directors are not eligible to participate in any of the Company's incentive or pension schemes and are not entitled to receive compensation for early termination of their terms of engagement.

Terence Eccles, Chairman of the Remuneration Committee, will be available to answer questions on remuneration policy at the Annual General Meeting.

AUDITED INFORMATION

Directors' emoluments

The emoluments of directors holding office during the year were:

	SALARY AND FEES £000	BENEFITS IN KIND £000	ANNUAL BONUS £000	LOSS OF OFFICE £000	**2007 TOTAL £000**	2006 TOTAL £000
Chairman						
J P L Perry	74	1	-	-	**75**	326
R G Dench	178	17	-	-	**195**	33
Executive						
N S Terrington	375	21	-	-	**396**	704
N Keen	293	5	-	-	**298**	530
J A Heron	204	17	-	-	**221**	377
P Pandya	192	5	-	-	**197**	353
Non-executive						
D M M Beever	40	-	-	-	**40**	36
G A F Lickley	1	-	-	40	**41**	38
C D Newell	41	-	-	-	**41**	38
T C Eccles	27	-	-	-	**27**	-
2007	**1,425**	**66**	**-**	**40**	**1,531**	2,435
2006	1,276	51	1,108	-	2,435	

Benefits in kind comprise private health cover, fuel benefit, life assurance and company car provision.

Despite meeting the targets under the bonus plan, the directors have volunteered to defer assessment of whether a bonus should be paid to them in respect of the year to the discretion of the Remuneration Committee who may make that assessment in the year ending 30 September 2008. Next year's report will contain details of and an explanation for any bonuses paid. The bonuses that would have been paid were £375,000 for Mr N S Terrington, £281,000 for Mr N Keen, £200,000 for Mr J A Heron and £180,000 for Mr P Pandya.

Following his retirement from the Board Mr J P L Perry was retained to provide consultancy services to the Group for a twelve month period, compensated at a rate of £20,000 per annum.

Directors' pensions

The total amount charged to the profit and loss account of the Group in respect of pension provision for directors was £505,000 (2006: £247,000).

Mr N S Terrington, Mr N Keen, Mr J A Heron and Mr P Pandya were members of the Group defined benefit pension scheme during the year.

The amounts shown below describe their entitlement in accordance with paragraph 12.43A(c) of the Listing Rules.

	INCREASE IN ACCRUED PENSION DURING YEAR EXCLUDING ANY INCREASE FOR INFLATION £000	TRANSFER VALUE OF INCREASE LESS DIRECTORS' CONTRIBUTIONS £000	**ACCUMULATED TOTAL ACCRUED PENSION AT 30 SEPTEMBER 2007 £000**	ACCUMULATED TOTAL ACCRUED PENSION AT 30 SEPTEMBER 2006 £000
N S Terrington	16	167	**144**	123
N Keen	6	50	**65**	57
J A Heron	10	104	**81**	69
P Pandya	1	9	**57**	54

The pension entitlement shown is that which would be paid annually on retirement based on service to 30 September 2007 for Mr Keen and service to 6 April 2006 for Messrs Terrington, Heron and Pandya who each elected to suspend future benefit accrual within the plan from that date.

The increase in accrued pension during the year (and transfer value of the increase) excludes any increase for inflation. 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.

The following disclosures describe the pension benefits earned in the year in accordance with Schedule 7(A) of the Companies Act 1985.

	AGE AT YEAR END	DIRECTORS' CONTRIBUTIONS IN THE YEAR £000	INCREASE IN ACCRUED PENSION IN THE YEAR £000	ACCUMULATED TOTAL ACCRUED PENSION AT YEAR END £000	TRANSFER VALUE OF ACCRUED BENEFITS AT 30 SEPTEMBER 2006 £000	**TRANSFER VALUE OF ACCRUED BENEFITS AT 30 SEPTEMBER 2007 £000**	DIFFERENCE IN TRANSFER VALUES LESS CONTRIBUTIONS £000
N S Terrington	47	-	21	144	1,323	**1,524**	201
N Keen	49	5	8	65	663	**740**	72
J A Heron	48	-	12	81	768	**894**	126
P Pandya	42	-	3	57	475	**492**	17

The pension entitlement shown is that which would be paid annually on retirement based on service to 30 September 2007 for Mr Keen and service to 6 April 2006 for Messrs Terrington, Heron and Pandya who each elected to suspend future benefit accrual within the plan from that date.

The contributions shown are those paid or payable by the directors under the terms of the plan. 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.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 'Retirement Benefit Schemes - Transfer Values' published by the Institute of Actuaries and the Faculty of Actuaries.

The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the pension scheme.

During the year the Group made contributions in respect of further pension provision of £177,000 (2006: £nil) for Mr N S Terrington, £112,000 (2006: £101,000) for Mr N Keen, £88,000 (2006: £nil) for Mr J A Heron and £72,000 (2006: £nil) for Mr P Pandya.

Details of share-based awards

Aggregate gains before taxation made by directors on the exercise of share based awards during the year were £3,618,000 (2006: £6,924,000). At 30 September 2007 the share price of The Paragon Group of Companies PLC was 300.25p (2006: 674.00p) and the range during the year then ended was 245.50p to 715.00p (2006: 495.50p to 761.50p).

Paragon Performance Share Plan

Awards under this plan comprise a right to acquire shares in the Company for nil or nominal payment and will vest on the third anniversary of their granting to the extent that the applicable performance criteria have been satisfied.

Details of individual entitlements of the directors under the Paragon Performance Share Plan at 30 September 2006 and 30 September 2007 are:

DATE FROM WHICH EXERCISABLE	EXPIRY DATE	MARKET PRICE AT AWARD DATE	JPL PERRY NUMBER	NS TERRINGTON NUMBER	N KEEN NUMBER	JA HERON NUMBER	P PANDYA NUMBER
Awards outstanding at 30 September 2006:							
02/07/2006*	02/01/2007	291.00p	40,790	-	-	-	-
18/12/2006*	18/06/2007	338.90p	31,250	51,953	39,063	21,875	21,875
22/06/2007*	22/12/2007	350.25p	28,036	46,610	35,045	19,625	19,625
02/12/2007*	02/06/2008	391.75p	-	54,897	41,173	22,102	22,102
02/06/2008*	02/12/2008	408.00p	-	47,034	35,276	18,937	18,937
07/03/2009†	07/09/2009	684.00p	-	35,722	26,778	15,111	15,111
25/05/2009†	25/11/2009	643.00p	-	19,352	14,506	8,186	8,186
25/09/2009†	25/03/2010	659.50p	-	18,295	13,714	7,739	7,739
			100,076	273,863	205,555	113,575	113,575
Awards made in the year:							
On 09/01/2007							
09/01/2010†	09/07/2010	665.00p	-	18,509	13,868	8,840	7,956
On 28/03/2007							
28/03/2010†	28/06/2010	576.50p		20,840	15,614	9,953	8,958
On 14/06/2007							
14/06/2010†	14/12/2010	543.00p		27,043	20,264	11,538	10,385
On 26/09/2007							
26/09/2010†	26/03/2011	296.50p		57,449	43,056	20,202	18,182
Awards exercised in the year:							
On 18/12/2006							
02/07/2006*	02/01/2007	291.00p	(40,790)	-	-	-	-
18/12/2006*	18/06/2007	338.90p	-	(51,953)	(39,063)	-	(21,875)
On 11/06/2007							
18/12/2006*	18/06/2007	338.90p		-	-	(21,875)	-
On 31/07/2007							
22/06/2007*	22/12/2007	350.25p		(37,409)	(28,127)	-	(15,751)
Awards lapsing in the year							
22/06/2007*	22/12/2007	350.25p		(9,201)	(6,918)	(3,874)	(3,874)
At 30 September 2007 or end of appointment			59,286	299,141	224,249	138,359	117,556

* The receipt of these shares is subject to the Company's TSR exceeding the TSR of a relevant proportion of the constituents of the FTSE All Share Banks and General Financial sectors. No part of an award vests for below median performance, 25% vests for median performance and 100% vests for upper quartile performance. Between median and upper quartile performance, awards vest on a straight line basis.

† 50% of these awards are subject to an EPS test and 50% to a TSR test. No part of an award vests for below median performance, 35% of each element vests for median performance and full vesting will occur for upper quartile performance. Between median and upper quartile performance, awards vest on a straight line basis.

The first grant vesting during the year met the performance conditions for 100% vesting and the second grant vesting during the year met the performance conditions for 80.26% vesting. Awards that did not vest are reported in the table as lapsed awards. The share prices on the vesting dates were 681.50p on 18 December 2006 and 526.50p on 22 June 2007.

The share prices at the exercise dates were:

18 December 2006	681.50p
11 June 2007	543.00p
31 July 2007	443.00p

Share option schemes

Details of individual options held by the directors at 30 September 2006 and 30 September 2007 are:

DATE FROM WHICH EXERCISABLE	EXPIRY DATE	OPTION PRICE	JPL PERRY NUMBER	NS TERRINGTON NUMBER	N KEEN NUMBER	JA HERON NUMBER	P PANDYA NUMBER
Options held at 30 September 2006							
31/03/2001	31/03/2008	218.00p	-	255,000	-	-	-
11/01/2002	11/01/2009	147.50p	-	300,000	-	-	-
17/02/2003	17/02/2010	147.00p	-	100,000	-	-	-
26/05/2003	26/05/2007	148.50p	-	200,000	-	-	-
27/11/2004	27/11/2011	248.00p	-	300,000	-	-	-
29/07/2005	29/07/2012	186.50p	-	60,000	60,000	80,000	-
14/03/2006	14/03/2013	186.50p	122,368	191,053	138,947	65,789	-
08/12/2006†	08/12/2013	339.00p	58,997	98,083	73,746	41,298	41,298
01/12/2007†	01/12/2014	348.38p	-	109,795	82,347	44,205	44,205
01/08/2010	01/02/2011	326.76p	-	5,057	-	-	-
01/09/2009	01/09/2010	525.52p	-	-	1,779	-	-
01/09/2011	01/09/2012	525.52p	-	-	-	3,063	-
			181,365	1,618,988	356,819	234,355	85,503
Options granted in the year:			-	-	-	-	-
Options exercised in the year:							
On 08/12/06							
08/12/2006†	08/12/2013	339.00p	-	-	-	-	(41,298)
On 09/01/07							
26/05/2003	26/05/2007	148.50p	-	(200,000)	-	-	-
At 30 September 2007 or end of appointment			181,365	1,418,988	356,819	234,355	44,205

† The exercise of these options is conditional upon the Company's total shareholder return exceeding the total shareholder return for at least half of a specified group of comparator companies.

The awards vesting during the year met the performance conditions for 100% vesting. The share price on the vesting date, 8 December 2006, was 667.50p. The share prices at the exercise dates were 667.50p on 8 December 2006 and 665.00p on 9 January 2007.

Deferred bonus shares

Details of individual entitlements of the directors to Deferred Bonus Shares at 30 September 2006 and 30 September 2007 are:

AWARD DATE	TRANSFER DATE	MARKET PRICE AT AWARD DATE	JPL PERRY NUMBER	NS TERRINGTON NUMBER	N KEEN NUMBER	JA HERON NUMBER	P PANDYA NUMBER
Awards outstanding at 30 September 2006:							
27/02/2004	01/10/2006	387.60p	29,940	45,284	32,934	13,473	16,467
27/02/2005	01/10/2007	407.75p	14,113	52,694	39,490	20,528	20,528
13/03/2006	01/10/2008	683.00p	-	22,904	17,178	9,416	9,416
			44,053	120,882	89,602	43,417	46,411
Awards made in the year:							
15/01/2007	01/10/2009	631.00p	-	18,078	13,552	9,559	8,285
Shares transferred in the year:							
On 18/12/2006							
27/02/2004	01/10/2006	387.60p	-	(45,284)	(32,934)	(13,473)	(16,467)
On 23/01/2007							
27/02/2004	01/10/2006	387.60p	(29,940)	-	-	-	-
At 30 September 2007 or end of appointment			14,113	93,676	70,220	39,503	38,229

The Deferred Bonus Shares awarded will be transferred to the scheme participants as soon as is reasonably practicable after the transfer date.

The share prices at the exercise dates were 681.50p on 18 December 2006 and 602.00p on 23 January 2007. Following the transfer of the shares the participants received payment in respect of the dividends which would have accrued on the shares since the award date as follows: Mr J P L Perry - £9,000, Mr N S Terrington - £13,000, Mr N Keen - £10,000, Mr J A Heron - £4,000, Mr P Pandya £5,000.

Matching Share Plan

The individual interests of the directors in the Matching Share Plan at 30 September 2006 and 30 September 2007 are:

AWARD DATE	MARKET PRICE AT AWARD DATE	NS TERRINGTON NUMBER	N KEEN NUMBER	JA HERON NUMBER	P PANDYA NUMBER
Awards outstanding at 30 September 2006:					
22/03/2006	761.50p	32,086	24,052	16,966	16,966
		32,086	24,052	16,966	16,966
Awards made in the year:					
09/01/2007	665.00p	25,116	18,818	14,995	13,495
At 30 September 2007		57,202	42,870	31,961	30,461

Awards are exercisable for six months from the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied. EPS performance is measured over the three year period commencing on the first day of the financial year in which the award date falls and TSR over the three year period commencing on the first day of the calendar quarter in which the award date falls.

Signed on behalf of the Board of Directors

John G Gemmell
Company Secretary

22 November 2007

Statement of directors' responsibilities

in relation to financial statements

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare accounts for the Group in accordance with International Financial Reporting Standards ('IFRS') and have also elected to prepare company financial statements in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 – 'Presentation of Financial Statements' requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Independent auditors' report

To the members of The Paragon Group of Companies PLC

We have audited the group and individual company financial statements (the 'financial statements') of The Paragon Group of Companies PLC for the year ended 30 September 2007 which comprise the consolidated income statement, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements, the consolidated and individual company statements of recognised income and expenditure the consolidated and individual company reconciliations of movements in equity and the related notes 1 to 58. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of directors' remuneration report to be audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, in respect of the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Chief Executive's Review that is cross referred from the Business Review section of the Directors' Report.

In addition, we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority 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 other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Chief Executive's Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the directors' remuneration report to be audited. 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 group's and company's circumstances, 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 and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

Opinion

In our opinion;

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 30 September 2007 and of its profit for the year then ended;
- the individual Company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the individual company's affairs as at 30 September 2007; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

Separate opinion in relation to IFRS

As explained in Note 1 to the group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with IFRSs as issued by the International Accounting Standards Board.

In our opinion the financial statements give a true and fair view in accordance with IFRSs, of the state of the Group's affairs as at 30 September 2007 and of its profit for the year then ended.

Emphasis of matter - going concern

Without qualifying our opinion in this regard, we draw attention to the disclosures made in note 2 of the financial statements concerning the Group's ability to continue as a going concern.

The Group's £280 million facility expires on 27 February 2008 and if not renewed will be due for payment on this date. In order to ensure that the facility can be repaid when it falls due, the Group has entered into a standby underwriting agreement for a rights issue of up to £280 million, valid until 27 February 2008. This agreement is subject to the following conditions which result in material uncertainty:

- shareholder approval to enter into the rights issue;
- the absence of any material adverse change affecting the Group; and
- the absence of any force majeure event.

Having taken into account this material uncertainty, the directors consider it is appropriate to prepare the financial statements on the going concern basis. In the circumstances of the Group, these conditions, along with other matters noted in note 2, indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern as it is not practicable do so but would include writing down the carrying value of assets, including deferred tax assets to their recoverable amount and providing for any further liabilities that might arise.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors

Birmingham, United Kingdom

22 November 2007

Corporate governance

The Board of Directors is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance ("Code") issued by the Financial Reporting Council in July 2003. Throughout the year ended 30 September 2007 the Company complied with the provisions of the Code, except for Code provisions A3.2 in relation to the number of independent non-executive directors, A4.1 in relation to the constitution of the Nominations Committee and B2.1 in relation to the constitution of the Remuneration Committee. An explanation of this temporary departure is given under the section of this report headed 'Directors'.

At the beginning of the year the Board of Directors comprised the Chairman, four executive and four non-executive directors. Gavin Lickley, an independent non-executive director, retired from the Board on 12 October 2006 and Terence Eccles was appointed to the Board as an independent non-executive director on 1 February 2007. Jonathan Perry, the former Chairman, resigned from the Board at the conclusion of the Annual General Meeting on 8 February 2007 and Robert Dench, an independent non-executive director, was appointed Chairman on that date. The Board is now seeking to appoint at least one further independent non-executive director, which will ensure compliance with Code provision A3.2.

All of the directors bring to the Company a broad and valuable range of experience. In accordance with the Code, all directors will submit themselves for re-election at least once in every three years. The names of the directors in office at the date of this report and their biographical details are set out on pages 12 and 13.

The division of responsibilities between the Chairman and Chief Executive is clearly established, set out in writing and agreed by the Board. There is a strong non-executive representation on the Board, including David Beever, who has been nominated as the Senior Independent Director. This provides effective balance and challenge. The Board 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. All directors receive sufficient relevant information on financial, business and corporate issues prior to meetings and there is a formal schedule of matters reserved for decision by the Board, which includes material asset acquisitions and disposals, granting and varying authority levels of the Chairman and the executive directors, determination and approval of the Group's objectives, strategy and annual budget, investment decisions, corporate governance policies and financing and dividend policies.

Normally, there are ten regular Board meetings a year with other meetings being held as required. Robert Dench, Nigel Terrington, Nicholas Keen and Pawan Pandya attended all of the ten regular Board meetings during the year ended 30 September 2007. Christopher Newell attended nine meetings, John Heron and David Beever attended eight meetings, Terence Eccles attended all seven meetings following his appointment to the Board and Jonathan Perry attended all three meetings up to the date of his retirement from the Board.

All of the non-executive directors are independent of management and all are appointed for fixed terms. They 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 have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are complied with. Both the appointment and removal of the Company Secretary are matters for the Board as a whole.

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, which during the year consisted of Gavin Lickley, who chaired the Committee until his retirement from the Board on 12 October 2006, Terence Eccles (following his appointment to the Board on 1 February 2007), Jonathan Perry (until his retirement from the Board on 8 February 2007), David Beever and Robert Dench. The Committee is chaired by Terence Eccles.

  On his appointment as Chairman Robert Dench remained a member of the Committee in accordance with the revised Code, published in June 2006, which permits the Company Chairman to be a member of the Remuneration Committee. Whilst this is not permitted under section B2.1 of the current Code, Mr Dench's membership of to the Committee accords with the revised Code which will apply to the Company from 1 October 2007.

  The Company is in the process of recruiting at least one new independent non-executive director who will join the Committee in place of Jonathan Perry.

  During the year ended 30 September 2007 there were seven meetings of the Remuneration Committee. All meetings were attended by Robert Dench and David Beever, five meetings were attended by Terence Eccles following his appointment to the Committee on 1 February 2007 and three meetings were attended by Jonathan Perry up to his retirement from the Board on 8 February 2007.

  Further information about the Remuneration Committee is given in the Report of the Board to the Shareholders on Directors' Remuneration on pages 18 to 28.

- The Audit and Compliance Committee, which during the year consisted of Christopher Newell, who chairs the Committee, David Beever, Gavin Lickley (until his retirement from the Board on 12 October 2006), Robert Dench (until his appointment as Chairman on 8 February 2007) and Terence Eccles (following his appointment to the Board on 1 February 2007). The Board is satisfied that all members of the Committee have recent and relevant financial experience. The Committee meets at least three times per year. It monitors the integrity of the Group's financial reporting, reviews the Group's internal control and risk management systems, monitors and reviews the effectiveness of the Group's internal audit function, monitors the relationship between the Group and the external auditors and provides a forum through which the Group's external and internal audit functions report to the non-executive directors. The Committee is also responsible for ensuring that the system and controls for regulatory compliance are effective.

  The Audit and Compliance Committee reviews the scope and the results of the annual external audit, its cost effectiveness and the independence and objectivity of the external auditors. Both the Audit and Compliance Committee and the external auditors have in place safeguards to avoid compromises of the independence and objectivity of the external auditors. The Group has a formal policy for the engagement of its external auditors to supply non-audit services. The policy is designed to ensure that neither the nature of the service to be provided nor the level of reliance placed on the services could impact the objectivity of the external auditors' opinion on the Group's financial statements. The policy incorporates a comprehensive system for reporting to the Audit and Compliance Committee all proposals considered and the level of fees payable to the external auditors for the provision of non-audit services. In pursuance of this policy other accounting firms have been engaged for particular assignments.

  At each meeting the Audit and Compliance Committee receives reports of reviews conducted throughout the Group by the Internal Audit and, from time to time, compliance functions.

The Chairman, Group Chief Executive and other executive directors, Director of Financial Accounting and Group Company Secretary, Director of Business Analysis and Planning, Director of Legal Services, Head of Internal Audit and a partner from the external auditors normally attend meetings of the Committee.

During the year ended 30 September 2007 there were three meetings of the Audit and Compliance Committee and all members of the Committee were present at each meeting.

- The Nomination Committee, consisting of Robert Dench, who chairs the Committee, Nigel Terrington and two non-executive directors, David Beever and Christopher Newell. Jonathan Perry was Chairman of the Committee until his retirement from the Board on 8 February 2007. The Company is in the process of recruiting at least one new independent non-executive director, who will join the Committee ensuring that a majority of the Committee's members are independent non-executive directors, in accordance with Code provision A4.1. The Committee is convened as required to nominate candidates for membership of the Board, although ultimate responsibility for appointment rests with the Board. There were two meetings of the Nomination Committee in the year ended 30 September 2007. All of the members of the Committee attended both meetings, other than David Beever who attended one meeting. The Committee only engages in the process of identification of suitable candidates for appointment to the Board when requested by the Board to do so.

  There is a formal process for the appointment of directors, starting with a review of the Board structure, size and composition, leading to the preparation of a written job specification and the identification of suitable candidates. The Nomination Committee ensures that prospective non-executive directors can devote sufficient time to the appointment. The Board recognises the benefits that can flow from non-executive directors holding other appointments but requires them to seek the agreement of the Chairman before entering into any commitments that might affect the time they can devote to the Company. The choice of appointee would be based entirely on merit.

- The Asset and Liability Committee, consisting of appropriate heads of functions 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 senior executives and chaired by Nicholas Keen, the Finance Director. It meets regularly and is responsible for establishing credit policy and monitoring compliance therewith.

All Board committees operate within defined terms of reference and sufficient resources are made available to them to undertake their duties. The terms of reference of the Remuneration Committee, Audit and Compliance Committee and Nomination Committee are available on request from the Company Secretary.

The composition of the Board and its committees is kept under review, with the aim of ensuring that there is an appropriate balance of power and authority between executive and non-executive directors and that the directors collectively possess the skills and experience necessary to direct the Company and the Group's business activities.

There is an established process for external appointments through the Nomination Committee. Ultimately, the appointment of any new director is a matter for the Board. Executive director appointments are based upon merit and business need. Non-executive appointments are based upon the candidates' profiles matching those drawn up by the Nomination Committee. In all cases the Board approves the appointment only after careful consideration.

The Board, individual directors and Board committees are appraised annually. The performance of the Chief Executive is appraised by the Chairman. The performance of the other executive directors is appraised by the Chief Executive in conjunction with the Chairman. The results of these appraisals are presented to the Remuneration Committee for consideration and determination of remuneration.

During the year the Board conducted a formal and rigorous performance review, which was effected by all Board directors considering a list of questions on Board and Committee performance, followed by a Board discussion facilitated by the Chairman.

At the Annual General Meeting the Chairman will confirm to shareholders, when proposing the re-election of any non-executive director, that, following formal performance evaluation, the individual's performance continues to be effective and demonstrates commitment to the role.

The non-executive directors meet at least annually to review the performance of the Chairman.

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 18 to 28.

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 is held in London during business hours and 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 announced.

The Chairman, Chief Executive and Finance Director have a full programme of meetings with institutional investors during the course of the year and investors comments are communicated to all members of the Board. 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 15 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 29.

An on-going 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 2007 and to the date 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 the risk of 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 has a programme of regular presentations from senior management to enable the Board 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 and Compliance Committee. The internal audit work plan is approved annually by the Audit and Compliance Committee, which reviews the effectiveness of the system of internal control annually and reports its conclusions to the Board.

Going concern basis

As referred to in note 45, the Group has a £280.0m committed corporate syndicated sterling bank facility which is used to provide working capital. This facility is fully drawn and falls due for repayment on 27 February 2008. To enable the repayment of this facility the Company has entered into an agreement with UBS, described in note 57, whereby the Company has the right to require UBS to underwrite, in full, an equity financing of up to £280.0m before expenses. The obligation of UBS is subject to the normal conditions, including all relevant approvals, including shareholder approval, being obtained; the absence of any material adverse change affecting the Group; and the absence of any force majeure event. Such conditionality gives rise to a material uncertainty related to events or conditions which may cast significant doubt on the Group's ability to continue as a going concern and, therefore it may, if it is unable to satisfy these conditions and in the absence of other funding alternatives, be unable to realise its assets and discharge its liabilities in the normal course of business.

After making enquiries, the directors have a reasonable expectation that a rights issue will be completed or alternative funding will be put in place to enable repayment of the corporate facility and that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

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Consolidated income statement

For the year ended 30 September 2007

	Notes	2007 £m	2006 £m
Interest receivable	7	**747.5**	550.8
Interest payable and similar charges	8	**(591.7)**	(407.9)
Net interest income		**155.8**	142.9
Share of results of associate		**0.2**	-
Other operating income		**28.9**	30.6
Total operating income		**184.9**	173.5
Operating expenses	9	**(47.7)**	(45.4)
Provisions for losses	14	**(50.5)**	(47.8)
		86.7	80.3
Fair value net gains	15	**4.3**	2.5
Operating profit being profit on ordinary activities before taxation		**91.0**	82.8
Tax charge on profit on ordinary activities	16	**(28.2)**	(14.0)
Profit on ordinary activities after taxation for the financial year		**62.8**	68.8
Earnings per share			
- basic	18	**56.8p**	61.2p
- diluted	18	**54.7p**	58.4p

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

Consolidated balance sheet

30 September 2007

		2007		2006	
	Notes	**£m**	**£m**	£m	£m
Assets employed					
Non-current assets					
Intangible assets	19	**0.6**		0.6	
Property, plant and equipment	20	**21.9**		20.2	
Interest in associate	23	**0.5**		-	
Financial assets	24	**11,119.5**		8,432.9	
Retirement benefit obligations	30	**4.2**		0.3	
Deferred tax asset	31	**16.1**		33.6	
			11,162.8		8,487.6
Current assets					
Other receivables	32	**6.7**		6.3	
Cash and cash equivalents	33	**927.7**		622.7	
			934.4		629.0
Total assets			**12,097.2**		9,116.6
Financed by					
Equity shareholders' funds					
Called-up share capital	34		**12.1**		12.1
Reserves	35		**358.0**		314.6
Share capital and reserves			**370.1**		326.7
Own shares	43		**(56.8)**		(47.7)
Total equity			**313.3**		279.0
Current liabilities					
Financial liabilities	44	**280.9**		128.0	
Current tax liabilities	47	**3.1**		1.4	
Provisions	48	**1.4**		0.7	
Other liabilities	49	**111.1**		78.2	
			396.5		208.3
Non-current liabilities					
Financial liabilities	44	**11,379.6**		8,619.7	
Provisions	48	**0.6**		3.7	
Other liabilities	49	**7.2**		5.9	
			11,387.4		8,629.3
Total liabilities			**11,783.9**		8,837.6
			12,097.2		9,116.6

Approved by the Board of Directors on 22 November 2007.
Signed on behalf of the Board of Directors

N S Terrington
Chief Executive

N Keen
Finance Director

Company balance sheet

30 September 2007

	Notes	2007 £m	2007 £m	2006 £m	2006 £m
Assets employed					
Non-current assets					
Property, plant and equipment	20	**9.6**		10.5	
Investment in subsidiary undertakings	21	**495.6**		394.4	
Interest in associate	23	**0.3**		-	
Financial assets	24	**15.4**		-	
			520.9		404.9
Current assets					
Other receivables	32	**85.6**		65.5	
			85.6		65.5
Total assets			**606.5**		470.4
Financed by					
Equity shareholders' funds					
Called-up share capital	34		**12.1**		12.1
Reserves	35		**217.0**		162.2
Share capital and reserves			**229.1**		174.3
Own shares	43		**(39.5)**		(31.4)
Total equity			**189.6**		142.9
Current liabilities					
Financial liabilities	44	**0.5**		0.4	
Current tax liabilities	47	**1.0**		1.0	
Other liabilities	49	**280.9**		192.4	
			282.4		193.8
Non-current liabilities					
Financial liabilities	44	**133.2**		132.2	
Other liabilities	49	**1.3**		1.5	
			134.5		133.7
Total liabilities			**416.9**		327.5
			606.5		470.4

Approved by the Board of Directors on 22 November 2007.
Signed on behalf of the Board of Directors

N S Terrington
Chief Executive

N Keen
Finance Director

Consolidated cash flow statement

For the year ended 30 September 2007

	Notes	2007 £m	2006 £m
Net cash (utilised) by operating activities	50	**(2,511.6)**	(1,824.0)
Net cash (utilised) by investing activities	51	**(6.2)**	(1.4)
Net cash generated by financing activities	52	**2,822.7**	1,917.8
Net increase in cash and cash equivalents		**304.9**	92.4
Opening cash and cash equivalents		**622.3**	529.9
Closing cash and cash equivalents		**927.2**	622.3
Represented by balances within:			
Cash and cash equivalents		**927.7**	622.7
Financial liabilities		**(0.5)**	(0.4)
		927.2	622.3

Company cash flow statement

For the year ended 30 September 2007

	Notes	2007 £m	2006 £m
Net cash generated by operating activities	50	**79.7**	78.0
Net cash (utilised) by investing activities	51	**(50.5)**	(38.9)
Net cash (utilised) by financing activities	52	**(29.2)**	(39.1)
Net increase in cash and cash equivalents		**-**	-
Opening cash and cash equivalents		**-**	-
Closing cash and cash equivalents		**-**	-
Represented by balances within:			
Cash and cash equivalents		**-**	-
Financial liabilities		**-**	-
		-	-

Statement of recognised income and expenditure

For the year ended 30 September 2007

		THE GROUP		THE COMPANY	
		2007	2006	**2007**	2006
	Notes	**£m**	£m	**£m**	£m
Profit for the year		**62.8**	68.8	**72.9**	1.5
Actuarial gain / (loss) on pension scheme	30	**3.4**	(0.6)	**-**	-
Cash flow hedge (losses) / gains taken to equity		**(1.4)**	1.5	**-**	-
Tax on items taken directly to equity	41	**(0.5)**	(0.2)	**-**	-
Total recognised income and expenditure for the year		**64.3**	69.5	**72.9**	1.5
Adoption of IAS 32 and IAS 39		**-**	(72.5)	**-**	(52.5)
		64.3	(3.0)	**72.9**	(51.0)

Reconciliation of movements in equity

For the year ended 30 September 2007

		THE GROUP		THE COMPANY	
		2007	2006	**2007**	2006
	Notes	**£m**	£m	**£m**	£m
Total recognised income and expenditure for the year		**64.3**	69.5	**72.9**	1.5
Dividends paid	40	**(20.1)**	(16.0)	**(20.8)**	(16.8)
Net movement in own shares		**(9.1)**	(24.9)	**(8.1)**	(23.1)
(Deficit) / surplus on transactions in own shares	42	**(1.5)**	0.6	**0.1**	1.2
Charge for share based remuneration		**2.6**	0.6	**2.6**	0.6
Tax on share based remuneration	41	**(1.9)**	8.9	**-**	-
Net movement in equity in the year		**34.3**	38.7	**46.7**	(36.6)
Equity at 30 September 2006		**279.0**	312.8	**142.9**	232.0
Adoption of IAS 32 and IAS 39		**-**	(72.5)	**-**	(52.5)
Equity at 1 October 2006		**279.0**	240.3	**142.9**	179.5
Closing equity		**313.3**	279.0	**189.6**	142.9

Notes to the accounts

For the year ended 30 September 2007

1. GENERAL INFORMATION

The Paragon Group of Companies PLC is a company domiciled in the United Kingdom and incorporated in England and Wales under the Companies Act 1985. The address of the registered office is given on page 37. The nature of the Group's operations and its principal activities are set out in the Directors Report on pages 14 to 15.

These financial statements are presented in pounds sterling which is the currency of the economic environment in which the Group operates.

At the date of authorisation of these financial statements the following International Financial Reporting Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 7 - 'Financial Instruments: Disclosures' and the related amendment to IAS 1 on capital disclosures.
- IFRS 8 - 'Segmental Information'
- IAS 1 (revised) - 'Presentation of Financial Information'
- IFRIC 10 - 'Interim Financial Reporting and Impairment'
- IFRIC 11 - 'Group and Treasury Share Transactions'
- IFRIC 14 - 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for;

(a) additional and amended disclosures on capital and financial instruments when IFRS 7 comes into effect for the financial year ending 30 September 2008.

(b) amended disclosures in respect of segmental information when IFRS 8 comes into effect, expected to be for the financial year ending 30 September 2009, if the Standard is endorsed by the European Union.

(c) amended presentation of the financial statements when IAS 1 comes into effect, expected to be for the financial year ending 30 September 2010, if the Standard is endorsed by the European Union.

Other Standards and interpretations in issue but not effective do not address matters relevant to the Group's accounting and reporting.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union.

The particular policies adopted are described below.

(a) Basis of Preparation: Going concern

As referred to in note 45, the Group has a £280.0m committed corporate syndicated sterling bank facility which is used to provide working capital. This facility is fully drawn and falls due for repayment on 27 February 2008. To enable the repayment of this facility the Company has entered into an agreement with UBS, described in note 57, whereby the Company has the right to require UBS to underwrite, in full, an equity financing of up to £280.0m before expenses. The obligation of UBS is subject to the normal conditions, including all relevant approvals, including shareholder approval, being obtained; the absence of any material adverse change affecting the Group; and the absence of any force majeure event. Such conditionality gives rise to a material uncertainty related to events or conditions which may cast significant doubt on the Group's ability to continue as a going concern and, therefore it may, if it is unable to satisfy these conditions and in the absence of other funding alternatives, be unable to realise its assets and discharge its liabilities in the normal course of business.

After making enquiries, the directors have a reasonable expectation that a rights issue will be completed or alternative funding will be put in place to enable repayment of the corporate facility and that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The financial statements have been prepared on a going concern basis. However until the outcome of the proposed rights issue and Group's negotiations with its lenders and their implications for the Group's future funding structure are known, there is material uncertainty about the appropriateness of this basis of preparation. The financial statements do not include any adjustments that would result if the going concern basis were not appropriate.

2. ACCOUNTING POLICIES (continued)

(b) Accounting convention

The financial statements have prepared under the historical cost convention, except as required in the valuation of certain financial instruments which are carried at fair value.

(c) Basis of consolidation

The consolidated financial statements deal with the accounts of the Company and its subsidiaries made up to 30 September 2007. Subsidiaries comprise all those entities over which the Group has control. The results of businesses acquired are dealt with in the consolidated accounts from the date of acquisition.

In accordance with SIC 12 - 'Consolidation: Special Purpose Entities' companies owned by charitable trusts into which loans originated by Mortgage Trust Limited were sold as part of its securitisation programme, where the Group enjoys the benefits of ownership, are treated as subsidiaries.

Similarly, trusts set up to hold shares in conjunction with the Group's employee share ownership arrangements are also treated as subsidiaries.

(d) Goodwill

Goodwill arising from the purchase of subsidiary undertakings, representing the excess of the fair values of acquired assets over the fair value of the purchase consideration, is held on the balance sheet and reviewed annually to determine whether any impairment has occurred.

Negative goodwill is written off as it arises.

As permitted by IFRS 1, the Group has elected not to apply IFRS 3 - 'Business Combinations' to combinations taking place before its transition date to IFRS (1 October 2004). Therefore any goodwill which was written off to reserves under UK GAAP will not be charged or credited to the profit and loss account on any future disposal of the business to which it relates.

(e) Intangible assets

Intangible assets comprise purchased computer software, which is capitalised where it has a sufficiently enduring nature. This is stated at cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 25% per annum.

(f) Leases

Leases are accounted for as operating or finance leases in accordance with IAS 17 - 'Leases'. A finance lease is deemed to be one which transfers substantially all of the risks and rewards of the ownership of the asset concerned. Any other lease is an operating lease.

Rental income and costs under operating leases are credited or charged to the profit and loss account on a straight line basis over the period of the leases.

(g) Contract hire

Motor vehicles acquired in connection with contract hire arrangements are sold to finance houses, who lease them to customers for a pre-determined period. The Group has undertaken to repurchase these vehicles at the end of the lease term.

In accordance with the requirements of IAS 17, the assets are not derecognised on the sale to the finance house and remain as the Group's assets and the consideration received is spread over the customer's lease term.

(h) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost for property held under a sale and leaseback transaction represents the sale value.

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 term of the lease
Computer hardware	25% per annum
Furniture, fixtures and office equipment	15% per annum
Company motor vehicles	25% per annum
Motor vehicles subject to contract hire arrangements	over the term of the lease

(i) Associates

The Group's interest in associated undertakings is valued at the Group's share of the net assets of the associate, as required by IAS 28 - 'Investments in Associates'. The interest of the Group in the profit after tax of the associate is recognised in the income statement.

The Company's interest in the shares of associated undertakings is valued at cost less provision for impairment. Dividends received from the associate by the Company are included in income when they become receivable.

(j) Investments

The Company's investments in subsidiary undertakings are valued at cost less provision for impairment.

(k) Loans to customers

Loans to customers are considered to be 'loans and receivables' as defined by IAS 39 - 'Financial Instruments: Recognition and Measurement'. They are therefore accounted for on the amortised cost basis.

Such loans are valued at inception at the initial advance amount, which is the fair value at that time, inclusive of procuration fees paid to brokers or other business providers and less initial fees paid by the customer. Thereafter they are valued at this amount less the cumulative amortisation calculated using the Effective Interest Rate ('EIR') method. The loan balances are then reduced where necessary by a provision for balances which are considered to be impaired.

The EIR method spreads the expected net income arising from a loan over its expected life. The EIR is that rate of interest which, at inception, exactly discounts the future cash payments and receipts arising from the loan to the initial carrying amount.

The Group's policy is to hedge against any exposure to fixed rate loan assets.

(l) Finance lease receivables

Finance lease receivables are included within 'Loans to Customers' at the total amount receivable less interest not yet accrued, unamortised commissions and provision for doubtful debts.

Income from finance lease contracts is accounted for on the actuarial basis.

(m) Impairment of loans and receivables

Loans and receivables are reviewed for indications of possible impairment throughout the year and at each balance sheet date, in accordance with IAS 39. Where loans exhibit objective evidence of impairment, the carrying value of the loans is reduced to the net present value of their expected future cash flows, including the value of the potential realisation of any security, discounted at the original EIR. Loans are assessed collectively, grouped by risk characteristics and account is taken of any impairment arising due to events which are believed to have taken place but have not been specifically identified at the balance sheet date.

(n) Cash and cash equivalents

Balances shown as cash and cash equivalents in the balance sheet comprise demand deposits and short-term deposits with banks with initial maturities of not more than 90 days.

(o) Own shares

Shares in The Paragon Group of Companies PLC held in treasury or by the trustees of the Group's employee share ownership plans are shown on the balance sheet as a deduction in arriving at total equity. Own shares are stated at cost.

(p) Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of temporary differences. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Tax relating to items taken directly to equity is also taken directly to equity.

(q) Borrowings

Borrowings are carried in the balance sheet on the amortised cost basis. The initial value recognised includes the principal amount received less any discount on issue or costs of issuance.

Interest and all other costs of the funding are expensed to the income statement as interest payable over the term of the borrowing on an Effective Interest Rate basis.

(r) Finance lease payables

Balances due on the lease arising from the sale and leaseback of a Group property are recognised in creditors at the total amount payable less interest not yet accrued. Interest is accrued on the actuarial basis.

The profit which arose on the sale and leaseback transaction is held within accruals and deferred income and is being credited to profit over the lease term on a straight line basis.

2. ACCOUNTING POLICIES (continued)

(s) Derivative financial instruments

Derivative instruments utilised by the Group comprise currency swap, interest rate swap, interest rate option and forward interest rate agreements. 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.

The Group does not enter into speculative derivative contracts.

All derivatives are carried in the balance sheet at fair value, as assets where the value is positive or as liabilities where the value is negative. Fair value is based on market prices, where a market exists. If there is no active market, fair value is calculated using present value models which incorporate assumptions based on market conditions and are consistent with accepted economic methodologies for pricing financial instruments. Changes in the fair value of derivatives are recognised in the income statement, except where such amounts are permitted to be taken to equity as part of the accounting for a cash flow hedge.

(t) Hedging

For all hedges, the Group documents, at inception, the relationship between the hedging instruments and the hedged items, as well as its risk management strategy and objectives for undertaking the transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging arrangements put in place are considered to be 'highly effective' as defined by IAS 39.

For a fair value hedge, as long as the hedging relationship is deemed 'highly effective' and meets the hedging requirements of IAS 39, any gain or loss on the hedging instrument recognised in income can be offset against the fair value loss or gain arising from the hedged item for the hedged risk. For macro hedges (hedges of interest rate risk for a portfolio of loan assets) this fair value adjustment is disclosed in the balance sheet alongside the hedged item, for other hedges the adjustment is made to the carrying value of the hedged asset or liability. Only the net ineffectiveness of the hedge is charged or credited to income. Where a fair value hedge relationship is terminated, or deemed ineffective, the fair value adjustment is amortised over the remaining term of the underlying item.

Where a derivative is used to hedge the variability of cash flows of an asset or liability, it may be designated as a cash flow hedge so long as this relationship meets the hedging requirements of IAS 39. For such an instrument the effective portion of the change in the fair value of the derivative is taken initially to equity, with the ineffective part taken to profit or loss. The amount taken to equity is released to the income statement at the same time as the hedged item affects the income statement. Where a cash flow hedge relationship is terminated, or deemed ineffective, the amount taken to equity will remain there until the hedged transaction is recognised, or is no longer highly probable.

(u) Deferred taxation

Deferred taxation is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered. As required by IAS 12 - 'Income Taxes', deferred tax assets and liabilities are not discounted to take account of the expected timing of realisation.

(v) Retirement benefit obligations

The expected cost of providing pensions within the funded defined benefit scheme, determined on the basis of annual valuations by professionally qualified actuaries using the projected unit method, is charged to the income statement. Actuarial gains and losses are recognised in full in the period in which they occur and do not form part of the result for the period, being recognised in the Statement of Recognised Income and Expenditure.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets at the balance sheet date.

Both the return on investment expected in the period and the expected financing cost of the liability, as estimated at the beginning of the period are recognised in the result for the period. Any variances against these estimates in the year form part of the actuarial gain or loss.
The assets of the scheme are held separately from those of the Group in an independently administered fund.

The charge to the income statement for providing pensions under defined contribution pension schemes is equal to the contributions payable to such schemes for the year.

(w) Provisions
Provisions are recognised where there is a present obligation as a result of a past event, it is probable that this obligation will result in an outflow of resources and this outflow can be reliably quantified. Provisions are discounted where this effect is material.

(x) Fee and commission income
Other income includes administration fees charged to borrowers, which are credited when the related service is performed, and commissions receivable on the sale of insurances, which are taken to profit at the point at which the Group becomes unconditionally entitled to the income.

(y) Share based payments
In accordance with IFRS 2 - 'Share based payments', the fair value at the date of grant of awards to be made in respect of options and shares granted under the terms of the Group's various share based employee incentive arrangements is charged to the profit and loss account over the period between the date of grant and the vesting date.

As permitted by IFRS 1, only those options and awards granted after 7 November 2002 and not vested at 1 January 2005 have been restated on transition to IFRS.

National Insurance on share based payments is accrued over the vesting period, based on the share price at the balance sheet date.

(z) Dividends
In accordance with IAS 10 - 'Events after the balance sheet date', dividends payable on ordinary shares are recognised in equity once they are appropriately authorised and are no longer at the discretion of the Company. Dividends declared after the balance sheet date, but before the authorisation of the financial statements remain within shareholders' funds.

(aa) Foreign currency
Foreign currency transactions, assets and liabilities are accounted for in accordance with IAS 21 - 'The Effects of Changes in Foreign Exchange Rates'. The functional currency of the Group is the pound sterling. Transactions which are not denominated in sterling are translated into sterling at the spot rate of exchange on the date of transaction. Monetary assets and liabilities which are not denominated in sterling are translated at the closing rate on the balance sheet date.

Gains and losses on retranslation are included in interest payable or interest receivable depending on whether the underlying instrument is an asset or a liability, except where deferred in equity in accordance with the cash flow hedging provisions of IAS 39.

(bb) Segmental reporting
Costs attributed to each segment represent the direct costs incurred by the segment operations and an allocation of the costs of areas of the business which serve all segments. Such allocations are weighted by the value of loan assets in each segment, adjusted for the relative effort involved in the administration of each asset class.

The business segments reported on have been revised as described in note 5.

3. CRITICAL ACCOUNTING ESTIMATES

Certain of the balances reported in the financial statements are based wholly or in part on estimates or assumptions made by the directors. There is, therefore, a potential risk that they may be subject to change in future periods. The most significant of these are:

(a) Impairment losses on loans to customers

Impairment losses on loans are calculated based on statistical models. The key assumptions revolve around estimates of future cash flows from customer's accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

In addition the directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect the current conditions.

The accuracy of the impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes. In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the model then the number of accounts requiring provision might be greater than suggested by the model, while falls in house prices, over and above any assumed by the model might increase the provision required in respect of accounts currently provided.

(b) Effective interest rates

In order to determine the effective interest rate applicable to loans an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. These estimates are based on historical data and reviewed regularly. The accuracy of the effective interest rate applied would therefore be compromised by any differences between actual borrower behaviour and that predicted.

(c) Fair values

Where financial assets and liabilities are carried at fair value, in the majority of cases this can be derived by reference to quoted market prices. Where such a quoted price is not available the valuation is based on cash flow models based, where possible, on independently sourced parameters. The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of the models or the assumptions used.

(d) Retirement benefits

The present value of the retirement benefit obligation is derived from an actuarial calculation which rests on a number of assumptions. These are listed in note 30. Where actual conditions differ from those assumed the ultimate value of the obligation would be different.

4. FINANCIAL RISK MANAGEMENT

The principal risks arising from the Group's normal business activities are credit risk, liquidity risk, interest rate risk and currency 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. The position disclosed below is materially similar to that existing throughout the year.

Credit risk

The Group's credit risk is primarily attributable to its loans to customers. The maximum credit risk at 30 September 2007 approximates to the carrying value of loans to customers (note 27). There are no significant concentrations of credit risk due to the large number of customers included in the portfolios.

The Group's business objectives rely on maintaining a high-quality customer base and place strong emphasis on good credit management, both at the time of acquiring or 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 or Northern Irish securities. Car loans are secured by the financed vehicle.

Despite this security, in assessing credit risk, an applicant's ability and propensity to repay the loan remain the principal factors 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 uses securitisation to mitigate its exposure to liquidity risk, ensuring, as far as possible, that the maturities of assets and liabilities are matched.

The Group's loan assets are principally financed by asset backed loan notes ('Notes') issued through the securitisation process. In a securitisation deal a Group company, referred to as a Special Purpose Vehicle ('SPV') will issue Notes secured on a pool of mortgage or other loan assets owned by the SPV. The Notes have a maturity date later than the final repayment date for any asset in the pool, typically over thirty years from the issue date. The noteholders are entitled to receive repayment of the Note principal out of principal funds generated by the loan assets from time to time, but their right to the repayment of principal is limited to the cash available in the SPV. There is no requirement for any Group company other than the issuing SPV to make principal payments in respect of the Notes. This has the effect of matching the maturities of the assets and the related funding, substantially reducing the Group's exposure to liquidity risk. Details of Notes in issue are given in note 45 and the assets backing the Notes are shown in notes 25 and 26.

The Group provides additional funding to the SPV at inception, subordinated to the external funding, which means that the credit risk on the pool assets is retained within the Group. The Group also receives the residual income generated by the assets. These factors mean that the risks and rewards of ownership of the assets remain with the Group, and hence the loans remain on the Group's balance sheet.

Cash received in each SPV is held until the next interest payment date, after which the remaining balances become available to the Group. Cash balances are also held within each SPV to provide credit enhancement for the deal, allowing principal payments to be made even if loans default. These cash balances are included within the restricted cash balances disclosed in note 33.

4. FINANCIAL RISK MANAGEMENT (continued)

From the point of origination until their inclusion in a securitisation deal, the Group's loan assets are held within the revolving 'warehouse' facility provided to Paragon Second Funding Limited. This warehouse functions in a similar way to an SPV, except that funds are drawn down as advances are made and repaid when loans are securitised. Although the warehouse has a date where it ceases to be available for new drawings, repayment of the principal is not required unless amounts are realised from the assets. The final repayment date of the facility is later than the final due date of the assets it is used to fund. As with the SPVs, the Group provides funding to this company and restricted cash balances are held within it. Further details of the warehouse facility are given in note 45 and details of the loan assets within the warehouse are given in notes 25 and 26.

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

Interest rate risk

The Group manages interest rate risk, the risk that margins will be adversely affected by movements in market interest rates, by maintaining floating rate liabilities and matching these with floating rate assets, hedging fixed rate assets and liabilities 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 Group's assets predominantly bear LIBOR linked interest rates or are hedged fixed rate assets. 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 may be used to hedge against any perceived risk of temporary increases in LIBOR rates at month ends.

The interest rate swaps have fixed rate payments at an average rate of 5.32% for periods up to 2013 and have floating rate receipts at LIBOR. At 30 September 2006 the outstanding interest rate swaps had fixed rate payments at an average rate of 4.82% for periods up to 2013 and had floating rate receipts at LIBOR.

The fixed rate corporate bond is hedged by use of a long-term interest rate swap agreement, of notional principal equal to the principal amount of the bond. This swap is in place until the optional repayment date in 2012 and converts the interest payable to a LIBOR-linked floating rate basis. The swap has fixed rate payments at 7.00% and floating rate receipts at LIBOR.

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. The carrying values of derivative financial instruments are included in the 'non interest bearing' column. 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. The 'Other assets' and 'Other liabilities' amounts in the table include all balance sheet balances not individually disclosed.

	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 2007							
Cash and cash equivalents	927.7	-	-	-	-	-	927.7
Loans to customers	4,634.4	696.6	1,965.7	3,590.7	27.9	119.6	11,034.9
Loans to associate	15.4	-	-	-	-	-	15.4
Other assets	-	-	-	-	-	119.2	119.2
Total assets	5,577.5	696.6	1,965.7	3,590.7	27.9	238.8	12,097.2
Bank loans and overdrafts	(1,212.1)	-	-	-	-	-	(1,212.1)
Corporate bond	-	-	-	-	(115.8)	-	(115.8)
Asset backed loan notes	(9,892.6)	-	-	-	-	-	(9,892.6)
Other liabilities	-	-	-	-	-	(563.4)	(563.4)
Equity	-	-	-	-	-	(313.3)	(313.3)
Total liabilities and equity	(11,104.7)	-	-	-	(115.8)	(876.7)	(12,097.2)
Notional swap principal	5,629.4	(684.0)	(1,229.8)	(3,715.2)	(0.4)	-	-
Interest rate repricing gap	102.2	12.6	735.9	(124.5)	(88.3)	(637.9)	-
Cumulative gap	102.2	114.8	850.7	726.2	637.9	-	-
At 30 September 2006							
Cash and cash equivalents	622.7	-	-	-	-	-	622.7
Loans to customers	4,020.6	169.2	829.9	3,316.1	35.8	55.0	8,426.6
Loans to associate	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	67.3	67.3
Total assets	4,643.3	169.2	829.9	3,316.1	35.8	122.3	9,116.6
Bank loans and overdrafts	(1,395.5)	-	-	-	-	-	(1,395.5)
Corporate bond	-	-	-	-	(117.9)	-	(117.9)
Asset backed loan notes	(7,057.7)	-	-	-	-	-	(7,057.7)
Other liabilities	-	-	-	-	-	(266.5)	(266.5)
Equity	-	-	-	-	-	(279.0)	(279.0)
Total liabilities and equity	(8,453.2)	-	-	-	(117.9)	(545.5)	(9,116.6)
Notional swap principal	3,785.8	(61.9)	(658.0)	(3,183.6)	117.7	-	-
Interest rate repricing gap	(24.1)	107.3	171.9	132.5	35.6	(423.2)	-
Cumulative gap	(24.1)	83.2	255.1	387.6	423.2	-	-

4. FINANCIAL RISK MANAGEMENT (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.

The only interest rate risk in the Company arises from the corporate bond described above which is a fixed rate instrument, until its maturity in 2017, which is fully hedged. Loans to associates and inter company assets and liabilities bear interest at floating rates based on LIBOR which reset within three months of the balance sheet date. The finance lease bears notional interest only; all other balances are non-interest bearing.

Currency risk

All of the Group's assets and liabilities are denominated in sterling with the exception of the asset backed loan notes denominated in US dollars and euros, which are described in note 45. Although IAS 39 requires that they be accounted for as currency liabilities and valued at their spot rates, it was a condition of the issue of these notes that 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.

The equivalent sterling principal amounts of notes in issue under these arrangements, and their carrying values at 30 September 2007 and 30 September 2006 are:

	2007 EQUIVALENT STERLING PRINCIPAL £m	**2007 CARRYING VALUE £m**	2006 EQUIVALENT STERLING PRINCIPAL £m	2006 CARRYING VALUE £m
US dollar notes	**4,551.0**	**4,177.5**	2,416.6	2,313.2
Euro notes	**2,699.3**	**2,773.5**	2,118.6	2,103.0
	7,250.3	**6,951.0**	4,535.2	4,416.2

Use of derivative financial instruments

The Group uses derivative financial instruments for risk management purposes. Such instruments are used only to limit the exposure of the Group to movements in market interest or exchange rates, as described above.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken, and hence all of the Group's derivative financial instruments are for commercial hedging purposes. These are used to protect the Group from exposures principally arising from fixed rate lending or borrowing and borrowings denominated in foreign currencies. Hedge accounting is applied where appropriate, though it should be noted that some derivatives, while forming part of an economic hedge relationship, do not qualify for this accounting treatment under IAS 39 either because natural accounting offsets are expected, or obtaining hedge accounting would be especially onerous.

The Group has designated a number of derivatives as fair value hedges. In particular this treatment is used for;

(a) hedging the interest rate risk of groups of fixed rate prepayable loan assets with interest rate derivatives on a portfolio basis. The Group believes this solution is the most appropriate as it is consistent with the economic hedging approach taken by the Group to these assets.

(b) hedging the interest rate risk of fixed rate corporate bond borrowings with a designated fixed to floating interest rate swap.

The Group has also designated cash flow hedging relationships, principally arising from currency borrowings, where a specified foreign exchange basis swap, set up as part of the terms of the borrowing is used.

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 and cash equivalents, 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.

Derivative financial instruments are stated at their fair values. 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.

The fair value of loans to customers is considered to be not materially different to the amortised cost value at which they are disclosed.

5. SEGMENTAL INFORMATION

For management purposes the Group is organised into two major operating divisions, First Mortgages and Consumer Finance, which includes secured lending, car and retail finance and the residual unsecured loans book which formed part of Other Operations in the year ending 30 September 2006. These divisions are the basis on which the Group reports primary segmental information. All of the Group's operations are conducted in the United Kingdom.

This represents a change from the basis reported in 2006 in that the closed, owner-occupied first mortgage book and the closed unsecured book, which together comprised the "Other Operations" category last year, are now included within the First Mortgages and Consumer Finance segments respectively. For reporting purposes these books were absorbed within the results from the two main business areas because their reduced size had rendered the Other Operations segment insignificant in terms of assets, revenue and net profits.

Financial information about these business segments is shown below. Results for the year ended 30 September 2006 have been reanalysed between the new segments as described above.

Year ended 30 September 2007

	FIRST MORTGAGES £m	CONSUMER FINANCE £m	TOTAL £m
Interest receivable	629.2	118.3	747.5
Interest payable	(534.6)	(57.1)	(591.7)
Net interest income	94.6	61.2	155.8
Income from associate	0.2	-	0.2
Other operating income	14.7	14.2	28.9
Total operating income	109.5	75.4	184.9
Operating expenses	(28.1)	(19.6)	(47.7)
Provisions for losses	(3.7)	(46.8)	(50.5)
	77.7	9.0	86.7
Fair value net gains	4.1	0.2	4.3
Operating profit	81.8	9.2	91.0
Tax charge			(28.2)
Profit after tax			62.8

Year ended 30 September 2006

	FIRST MORTGAGES £m	CONSUMER FINANCE £m	TOTAL £m
Interest receivable	428.8	122.0	550.8
Interest payable	(356.8)	(51.1)	(407.9)
Net interest income	72.0	70.9	142.9
Income from associate	-	-	-
Other operating income	12.3	18.3	30.6
Total operating income	84.3	89.2	173.5
Operating expenses	(23.7)	(21.7)	(45.4)
Provisions for losses	(2.5)	(45.3)	(47.8)
	58.1	22.2	80.3
Fair value net gains	2.4	0.1	2.5
Operating profit	60.5	22.3	82.8
Tax charge			(14.0)
Profit after tax			68.8

The assets and liabilities attributable to each of the segments at 30 September 2007 and 30 September 2006 were:

	FIRST MORTGAGES £m	CONSUMER FINANCE £m	TOTAL £m
30 September 2007			
Segment assets	11,133.9	963.3	12,097.2
Segment liabilities	(10,939.3)	(844.6)	(11,783.9)
	194.6	118.7	313.3
30 September 2006			
Segment assets	8,124.3	992.3	9,116.6
Segment liabilities	(7,966.8)	(870.8)	(8,837.6)
	157.5	121.5	279.0

The capital expenditure attributable to each segment during the year ended 30 September 2007 and 30 September 2006 was:

	FIRST MORTGAGES £m	CONSUMER FINANCE £m	TOTAL £m
2007	1.4	5.8	7.2
2006	1.1	4.6	5.7

6. REVENUE

	2007 £m	2006 £m
Interest receivable	**747.5**	550.8
Other income	**28.9**	30.6
Total revenue	**776.4**	581.4
Arising from:		
First Mortgages	**643.9**	441.1
Consumer Finance	**132.5**	140.3
Total revenue	**776.4**	581.4

7. INTEREST RECEIVABLE

	2007 £m	2006 £m
Interest on loans to customers	**692.7**	512.5
Interest on loans to associate	**1.2**	-
Other interest receivable	**50.8**	33.4
Total interest on financial assets	**744.7**	545.9
Return on pension scheme assets	**2.8**	2.2
Other finance income	**-**	2.7
	747.5	550.8

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £m	2006 £m
On asset backed loan notes	**511.3**	339.7
On corporate bond	**9.2**	8.3
On bank loans and overdrafts	**64.2**	53.5
Total interest on financial liabilities	**584.7**	401.5
On pension scheme liability	**2.3**	2.0
On finance leases	**1.3**	1.3
Other finance costs	**3.4**	3.1
	591.7	407.9

9. OPERATING EXPENSES

	2007 £m	2006 £m
Employment costs (note 10)	**29.3**	27.3
Auditor remuneration (note 13)	**0.8**	1.1
Amortisation of intangible assets (note 19)	**0.2**	0.2
Depreciation (note 20)	**3.9**	3.5
Operating lease rentals (note 54)	**3.4**	3.5
Other administrative costs	**10.1**	9.8
	47.7	45.4

10. EMPLOYEES

The average number of persons (including directors) employed by the Group during the year was 763 (2006: 724).

Staff costs incurred during the year in respect of these employees were:

	2007 £m	**2007 £m**	2006 £m	2006 £m
Share based remuneration	**2.6**		0.6	
Other wages and salaries	**23.8**		21.4	
Total wages and salaries		**26.4**		22.0
National Insurance on share based remuneration	**(1.2)**		1.6	
Other social security costs	**2.0**		1.7	
Total social security costs		**0.8**		3.3
Defined benefit pension cost	**2.0**		1.9	
Other pension costs	**0.1**		0.1	
Total pension costs		**2.1**		2.0
Total staff costs		**29.3**		27.3

The credit in the year in respect of National Insurance on share based remuneration relates to the partial reversal of accruals made on unvested awards at 30 September 2006 and based on the share price at that date, following the reduction in the share price during the year.

Details of the pension schemes operated by the Group are given in note 30.

The Company has no employees. Details of the directors' remuneration are given in note 11.

11. KEY MANAGEMENT REMUNERATION

The remuneration of the directors, who are the key management personnel of the Group and the Company, is set out below in aggregate in accordance with IAS 24 - 'Related Party Transactions'. Further information about the remuneration of individual directors is provided in the Report of the Board to the Shareholders on Directors' Remuneration on pages 22 to 28.

	2007 £m	2006 £m
Short-term employee benefits	**1.8**	2.7
Post-employment benefits	**0.5**	0.3
Termination benefits	**0.1**	-
Share based payment	**0.7**	1.2
	3.1	4.2

12. SHARE BASED REMUNERATION

During the year the Group had various share based payment arrangements with employees. They are accounted for by the Group and the Company as shown below.

The effect of the share based payment arrangements on the Group's profit is shown in note 10.

Further details of share based payment arrangements are given in the Report of the Board to the Shareholders on Directors' Remuneration on pages 22 to 28.

(a) Share option schemes

Options under the Executive Share Option ('Executive') schemes have been granted to directors and senior employees from time to time, on the basis of performance and at the discretion of the Remuneration Committee. These options vest so long as the grantee is still employed by the Group at the end of the vesting period and, where applicable, performance criteria have been satisfied. It is not the present intention of the Group that any further awards should be made under the Executive schemes.

The Group also operates an All Employee Share Option ('Sharesave') scheme. Grants under this scheme vest after the completion of the appropriate service period and subject to a savings requirement.

A reconciliation of movements in the number and weighted average exercise price during the year ended 30 September 2007 and the year ended 30 September 2006 is shown below.

	2007 NUMBER	**2007 WEIGHTED AVERAGE EXERCISE PRICE p**	2006 NUMBER	2006 WEIGHTED AVERAGE EXERCISE PRICE p
Options outstanding				
At 1 October 2006	**4,385,684**	**246.54**	5,814,891	219.37
Granted in the year	**337,004**	**430.24**	236,883	525.52
Exercised in the year	**(452,380)**	**184.95**	(1,634,329)	190.08
Lapsed during the year	**(207,868)**	**497.78**	(31,761)	257.97
At 30 September 2007	**4,062,440**	**255.78**	4,385,684	246.54
Options exercisable	**2,878,938**	**213.45**	2,848,978	188.28

The weighted average share price at date of exercise for share options exercised during the period was 585.48p (2006: 600.17p).

The weighted average remaining contractual life of options outstanding at 30 September 2007 was 5.4 months (2006: 6.4 months)

Options are outstanding under the Executive and Sharesave schemes to purchase ordinary shares of 10p each as follows:

GRANT DATE	EXERCISE PRICE	PERIOD EXERCISABLE	**NUMBER 2007**	NUMBER 2006
Executive schemes				
31/03/1998	218.00p	31/03/2001 to 31/03/2008	**279,000**	279,000
11/01/1999	147.50p	11/01/2002 to 11/01/2009	**480,000**	480,000
17/02/2000	147.00p	17/02/2003 to 17/02/2010	**150,000**	150,000
26/05/2000	148.50p	26/05/2003 to 26/05/2007	**-**	320,000
27/11/2001	248.00p	27/11/2004 to 27/11/2011	**510,000**	540,000
29/07/2002	186.50p	29/07/2005 to 29/07/2012	**390,000**	390,000
14/03/2003	186.50p	14/03/2006 to 14/03/2013	**658,552**	658,552
18/12/2003	339.00p	18/12/2006 to 18/12/2013 †	**371,386**	432,890
01/06/2004	322.50p	01/06/2007 to 01/06/2014 †	**40,000**	40,000
01/12/2004	348.38p	01/12/2007 to 01/12/2014 †	**434,552**	434,552
			3,313,490	3,724,994
Sharesave schemes				
18/06/2003	183.04p	01/08/2006 to 01/02/2007	-	31,426
18/06/2003	183.04p	01/08/2008 to 01/02/2009	**123,018**	131,718
23/06/2005	326.76p	01/08/2008 to 01/02/2009	**140,916**	149,839
23/06/2005	326.76p	01/08/2010 to 01/02/2011	**95,654**	110,824
28/07/2006	525.52p	01/09/2009 to 01/03/2010	**48,132**	180,782
28/07/2006	525.52p	01/09/2011 to 01/03/2012	**13,227**	56,101
20/06/2007	430.24p	01/08/2010 to 01/02/2011	**226,937**	-
20/06/2007	430.24p	01/08/2012 to 01/02/2013	**101,066**	-
			748,950	660,690
			4,062,440	4,385,684

† The exercise of these options is conditional upon the Company's total shareholder return ('TSR') exceeding the TSR for at least half of a specified group of comparator companies.

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.

12. SHARE BASED REMUNERATION (continued)

All grants in the period were made under the Sharesave scheme. The fair value of options granted is determined using a Binomial model. Grants made in the year ended 30 September 2006 were valued using a Black-Scholes Merton model. Details of the awards made in the year ended 30 September 2007 and the year ended 30 September 2006 are shown below:

GRANT DATE	**20 JUNE 2007**	**20 JUNE 2007**	28 JULY 2006	28 JULY 2006
Number of awards granted	**235,938**	**101,066**	180,782	56,101
Market price at date of grant	**535.00p**	**535.00p**	622.00p	622.00p
Contractual life (years)	**3.0**	**5.0**	3.0	5.0
Fair value per share at date of grant	**142.64p**	**143.53p**	131.60p	138.31p
Inputs to valuation model				
Expected volatility	**27.02%**	**27.02%**	17.09%	17.09%
Expected life at grant date (years)	**3.42**	**5.39**	3.50	5.50
Risk-free interest rate	**5.67%**	**5.67%**	4.77%	4.77%
Expected dividend yield	**2.74%**	**2.74%**	1.99%	1.99%
Expected annual departures	**5.00%**	**5.00%**	8.83%	6.52%

The expected volatility of the share price used in determining the fair value of the awards is based on the annualised standard deviation of daily changes in price over the previous year from the grant date.

(b) Paragon Performance Share Plan

Awards under this plan comprise a right to acquire ordinary shares of 10p each in the Company for nil or nominal payment and will vest on the third anniversary of their granting, to the extent that the applicable performance criteria have been satisfied, if the holder is still employed by the Group. The awards will lapse to the extent that the performance condition has not been satisfied on the third anniversary.

The conditional entitlements outstanding under this scheme at 30 September 2007 and 30 September 2006 were:

GRANT DATE	PERIOD EXERCISABLE	**NUMBER 2007**	NUMBER 2006
02/07/2003	02/07/2006 to 02/01/2007 *	**-**	69,081
18/12/2003	18/12/2006 to 18/06/2007 *	**-**	289,533
22/06/2004	22/06/2007 to 22/12/2007 *	**53,511**	268,169
02/12/2004	02/12/2007 to 02/06/2008 *	**295,389**	297,273
02/06/2005	02/06/2008 to 02/12/2008 *	**261,178**	265,204
07/03/2006	07/03/2009 to 07/09/2009 †	**177,412**	179,456
25/05/2006	25/05/2009 to 25/11/2009 †	**90,981**	92,088
25/09/2006	25/09/2009 to 25/03/2010 †	**87,606**	88,653
09/01/2007	09/01/2010 to 09/07/2010 †	**123,082**	-
28/03/2007	28/03/2010 to 28/09/2010 †	**89,459**	-
14/06/2007	14/06/2010 to 14/12/2010 †	**157,086**	-
26/09/2007	26/09/2010 to 26/03/2011 †	**208,088**	-
		1,543,792	1,549,457

* The receipt of these shares is subject to the Company's TSR exceeding the TSR of a relevant proportion of the constituents of the FTSE All Share Banks and General Financial sectors. No part of an award vests for below median performance, 25% vests for median performance and 100% vests for upper quartile performance. Between median and upper quartile performance, awards vest on a straight line basis.

† The receipt of these shares is 50% subject to an EPS test and 50% to a TSR test. The growth in the Company's EPS (as adjusted for a common rate of corporation tax) and its TSR will be compared over the vesting period to the performance of a group of designated comparator companies. 35% of each element of the award will vest for median performance with full vesting for upper quartile performance; between these points awards will vest on a straight line basis. For below median performance, none of the relevant element of the award will vest. In addition, the Remuneration Committee will have regard to the underlying financial performance of the Company as compared with the level of TSR and EPS performance.

The fair value of awards granted under the Performance Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Details of the awards made in the year ended 30 September 2007 and the year ended 30 September 2006 are shown below:

GRANT DATE	**09 JANUARY 2007**	**28 MARCH 2007**	**14 JUNE 2007**	**26 SEPTEMBER 2007**
Number of awards granted	**124,132**	**89,459**	**157,086**	**208,088**
Market price at date of grant	**655.00p**	**576.50p**	**543.00p**	**296.50p**
Fair value per share at date of grant	**456.00p**	**393.00p**	**362.00p**	**192.00p**
Inputs to valuation model				
Expected volatility	**25.74%**	**26.60%**	**26.73%**	**36.75%**
Risk-free interest rate	**5.07%**	**5.18%**	**5.80%**	**4.93%**
Expected dividend yield	**2.56%**	**2.61%**	**2.73%**	**3.11%**

GRANT DATE	07 MARCH 2006	25 JUNE 2006	25 SEPTEMBER 2006
Number of awards granted	179,456	92,088	88,653
Market price at date of grant	684.00p	643.00p	659.50p
Fair value per share at date of grant	453.00p	433.50p	445.50p
Inputs to valuation model			
Expected volatility	23.87%	21.16%	22.31%
Risk-free interest rate	4.37%	4.63%	4.75%
Expected dividend yield	2.17%	2.03%	1.98%

For all of the above grants the contractual life and expected life at grant date is three years and no departures are expected.

The expected volatility of the share price used in determining the fair value of the awards is based on the annualised standard deviation of daily changes in price over the previous year from the grant date.

12. SHARE BASED REMUNERATION (continued)

c) Deferred Bonus awards

Awards under this scheme comprise a right to acquire 10p ordinary shares in the Company for nil or nominal payment and will vest on the third anniversary of their granting.

The conditional entitlements outstanding under this scheme at 30 September 2007 and 30 September 2006 were:

GRANT DATE	TRANSFER DATE	**NUMBER 2007**	NUMBER 2006
27/02/2004	01/10/2006	**-**	170,430
27/02/2005	01/10/2007	**184,962**	189,947
13/03/2006	01/10/2008	**75,671**	77,153
15/01/2007	01/10/2009	**68,217**	-
		328,850	437,530

The shares awarded will be transferred to the scheme participants as soon as is reasonably practicable after the transfer date.

The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model. The fair value of grants made in the year ended 30 September 2006 was based on the market value of the shares awarded at the grant date. Details of the awards made in the year ended 30 September 2007 and the year ended 30 September 2006 are shown below:

GRANT DATE	**15 JANUARY 2007**	13 MARCH 2006
Number of awards granted	**69,342**	77,153
Market price at date of grant	**631.00p**	605.00p
Fair value per share at date of grant	**584.44p**	605.00p
Inputs to valuation model		
Risk-free interest rate	**5.07%**	
Expected dividend yield	**2.56%**	

(d) Matching Share Plan

Awards under this plan comprise a right to acquire 10p ordinary shares in the Company for nil or nominal payment and will vest on the third anniversary of their granting to the extent that the applicable performance criteria have been satisfied, if the holder is still employed by the Group. The awards will lapse to the extent that the performance condition has not been satisfied on the third anniversary.

The conditional entitlements outstanding under this scheme at 30 September 2007 and at 30 September 2006 were:

GRANT DATE	TRANSFER DATE	NUMBER 2007	NUMBER 2006
22/03/2006	22/06/2009 †	**149,649**	158,541
09/01/2007	09/01/2010 †	**134,037**	-
		283,686	158,541

† The receipt of these shares is 50% subject to an EPS test and 50% to a TSR test. The growth in the Company's EPS (as adjusted for a common rate of corporation tax) and its TSR will be compared over the vesting period to the performance of a group of designated comparator companies. 35% of each element of the award will vest for median performance with full vesting for upper quartile performance; between these points awards will vest on a straight line basis. For below median performance, none of the relevant element of the award will vest. In addition, the Remuneration Committee will have regard to the underlying financial performance of the Company as compared with the level of TSR and EPS performance.

The fair value of awards granted under the Matching Share Plan is determined using a Monte Carlo simulation model, to take account of the effect of the market based condition. Details of the awards made in the year ended 30 September 2007 and the year ended 30 September 2006 are shown below:

GRANT DATE	09 JANUARY 2007	22 MARCH 2006
Number of awards granted	**140,785**	158,541
Market price at date of grant	**655.00p**	761.50p
Fair value per share at date of grant	**456.00p**	504.50p
Inputs to valuation model		
Expected volatility	**25.74%**	23.77%
Risk-free interest rate	**5.07%**	4.39%
Expected dividend yield	**2.56%**	2.15%

For all of the above grants the contractual life and expected life at grant date is three years and no departures are expected.

The expected volatility of the share price used in determining the fair value of the awards is based on the annualised standard deviation of daily changes in price over the previous year from the grant date.

13. AUDITOR REMUNERATION

The analysis of fees payable to the Group's auditors, excluding irrecoverable VAT, required by the Companies (Disclosure of Auditor Remuneration) Regulations 2005 is set out below. This disclosure has been revised following the issue of the revised TECH 06/06 'Disclosure of Auditor Remuneration' by the Institute of Chartered Accountants in England and Wales in July 2007. This analysis includes amounts charged to the profit and loss account or included within the issue costs of debt in respect of fees paid to the Group auditors and their associates.

	2007 **£000**	**2007**	2006 £000	2006
Group audit fee	**188**	**28%**	160	17%
Other services				
Audit of associated undertakings pursuant to legislation				
Subsidiary audit fees	**221**	**33%**	224	24%
Total audit fees	**409**	**61%**	384	41%
Other services pursuant to legislation				
Interim review	**40**	**6%**	40	4%
Other services related to taxation				
Compliance services	**151**	**22%**	177	19%
Advisory services	**76**	**11%**	59	6%
	227	**33%**	236	25%
Services relating to corporate finance transactions				
Securitisation services	**-**	**-**	72	8%
Other services				
IFRS advice and audit	**-**	**-**	164	17%
Other	**-**	**-**	44	5%
	-	**-**	208	22%
Total fees	**676**	**100%**	940	100%
Irrecoverable VAT	**118**		166	
Total fees charged to income	**794**		1,106	

In addition to the amounts above, the auditors received fees of £6,000 (2006: £6,000), excluding VAT, in respect of the audit of the Group pension scheme.

14. PROVISIONS FOR LOSSES

	2007 **£m**	2006 £m
Impairment of financial assets		
First mortgage loans	**3.6**	1.4
Other secured loans	**4.7**	1.6
Finance lease receivables	**1.9**	3.3
Retail finance loans	**1.0**	-
Other loans	**39.2**	40.4
	50.4	46.7
Other provisions	**0.1**	1.1
	50.5	47.8

15. FAIR VALUE NET GAINS

The fair value net gain of £4.3m (2006: £2.5m) represents the accounting volatility on derivative instruments which are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The gain is primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities.

16. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2007 £m	2006 £m
Current tax		
UK Corporation Tax on profits of the period	**15.2**	12.6
Adjustment in respect of prior periods	**(1.2)**	(5.8)
Total current tax	**14.0**	6.8
Deferred tax	**14.2**	7.2
Tax charge on profit on ordinary activities	**28.2**	14.0

(b) Deferred tax charge for the year

The deferred tax charge in the income statement comprises the following temporary differences:

	2007 £m	2006 £m
Accelerated tax depreciation	**0.3**	-
Retirement benefit obligations	**1.3**	1.4
Impairment and other provisions	**18.3**	5.1
Utilisation of tax losses	**(8.8)**	4.7
Other timing differences	**2.3**	0.7
Deferred tax charge for the year	**13.4**	11.9
Recognition of asset not previously recognised	**(0.2)**	(4.7)
Change in tax rate	**1.0**	-
Deferred tax charge / (credit) (note 31)	**14.2**	7.2

The United Kingdom government has enacted provisions reducing the standard rate of corporation tax to 28% with effect from 1 April 2008. Therefore the standard rate of corporation tax applicable to the Group will be 29% in the year ending 30 September 2008 and 28% thereafter. The expected impact of this change on the values at which deferred tax amounts are expected to crystallise has been accounted for in the year.

(c) Factors affecting tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the United Kingdom of 30% (2006: 30%). The differences are explained below.

	2007 £m	2006 £m
Profit on ordinary activities before taxation	**91.0**	82.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	**27.3**	24.8
Effects of:		
Results of associate	**(0.1)**	-
Permanent differences	**0.7**	(0.7)
Recognition of deferred tax asset not previously recognised	**(0.2)**	(4.7)
Change in rate of taxation on deferred tax assets and liabilities	**1.0**	-
Other movements in unprovided deferred taxation	**0.7**	0.4
Prior year credit	**(1.2)**	(5.8)
Tax charge for the year	**28.2**	14.0

17. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARAGON GROUP OF COMPANIES PLC

The Company's profit after tax for the financial year amounted to £72.9m (2006: £1.5m). A separate income statement has not been prepared for the Company under the provisions of Section 230 of the Companies Act 1985.

18. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

		2007	2006
Profit for the year (£m)		**62.8**	68.8
Basic weighted average number of ordinary shares ranking for dividend during the year (million)		**110.5**	112.4
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (million)		**4.2**	5.3
Diluted weighted average number of ordinary shares ranking for dividend during the year (million)		**114.7**	117.7
Earnings per ordinary share	- basic	**56.8p**	61.2p
	- diluted	**54.7p**	58.4p

18. EARNINGS PER SHARE (continued)

Fully taxed earnings per ordinary share is based on earnings calculated by reducing profit before tax for the period by a notional tax rate of 30%, the standard rate of corporation tax in the United Kingdom. The numbers of shares used are as shown above.

Fully taxed earnings per ordinary share is calculated as follows:

		2007	2006
Profit before tax for the year (£m)		**91.0**	82.8
Notional tax at 30% (£m)		**(27.3)**	(24.8)
Fully taxed earnings for the year (£m)		**63.7**	58.0
Fully taxed earnings per ordinary share	- basic	**57.7p**	51.6p
	- diluted	**55.6p**	49.3p

19. INTANGIBLE ASSETS

Intangible assets comprise computer software used in the Group's operations.

	2007 £m	2006 £m
Cost		
At 1 October 2006	**1.8**	1.3
Additions	**0.2**	0.5
Disposals	**-**	-
At 30 September 2007	**2.0**	1.8
Accumulated amortisation		
At 1 October 2006	**1.2**	1.0
Charge for the year	**0.2**	0.2
Disposals	**-**	-
At 30 September 2007	**1.4**	1.2
Net book value		
At 30 September 2007	**0.6**	0.6
At 30 September 2006	**0.6**	0.3

20. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	LEASEHOLD PREMISES £m	PLANT AND MACHINERY £m	TOTAL £m
Cost			
At 1 October 2005	19.3	15.6	34.9
Additions	-	5.2	5.2
Disposals	-	(4.0)	(4.0)
At 30 September 2006	19.3	16.8	36.1
Additions	-	7.0	7.0
Disposals	-	(3.4)	(3.4)
At 30 September 2007	19.3	20.4	39.7
Accumulated depreciation			
At 1 October 2005	6.8	8.4	15.2
Charge for the year	1.0	2.5	3.5
On disposals	-	(2.8)	(2.8)
At 30 September 2006	7.8	8.1	15.9
Charge for the year	0.9	3.0	3.9
On disposals	-	(2.0)	(2.0)
At 30 September 2007	8.7	9.1	17.8
Net book value			
At 30 September 2007	10.6	11.3	21.9
At 30 September 2006	11.5	8.7	20.2
At 30 September 2005	12.5	7.2	19.7

The net book value of leasehold buildings includes £9.6m in respect of assets held under finance leases (2006: £10.5m).

20. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) The Company

	LEASEHOLD PREMISES £m
Cost	
At 1 October 2005, 1 October 2006 and 30 September 2007	16.6
Accumulated depreciation	
At 1 October 2005	5.3
Charge for the year	0.8
At 30 September 2006	6.1
Charge for the year	0.9
At 30 September 2007	7.0
Net book value	
At 30 September 2007	9.6
At 30 September 2006	10.5
At 30 September 2005	11.3

The net book value of leasehold buildings represents assets held under finance leases.

21. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	SHARES IN GROUP COMPANIES £m	LOANS TO GROUP COMPANIES £m	LOANS TO ESOP TRUSTS £m	TOTAL £m
At 30 September 2005	253.8	141.0	14.3	409.1
Introduction of IAS 39	(52.5)	-	-	(52.5)
At 1 October 2005	201.3	141.0	14.3	356.6
Loans advanced	-	258.1	4.3	262.4
Loans repaid	-	(221.3)	(3.2)	(224.5)
Provision movements	(0.1)	-	-	(0.1)
At 1 October 2006	201.2	177.8	15.4	394.4
Loans advanced	-	265.3	3.4	268.7
Loans repaid	-	(218.5)	-	(218.5)
Provision movements	53.2	-	(2.2)	51.0
At 30 September 2007	254.4	224.6	16.6	495.6

During the year ended 30 September 2007 the Company received £31.3m in dividend income from its subsidiaries (2006: £8.2m) and £13.7m of interest on loans to Group companies (2006: £7.8m).

The principal operating subsidiaries, and the nature of the Group's interest in them, are shown in note 22.

22. PRINCIPAL OPERATING SUBSIDIARIES

The financial year end of all of the Group's subsidiary companies is 30 September. They are all registered and operate in England and Wales.

Principal operating subsidiaries where the share capital is held within the Group comprise:

	HOLDING	PRINCIPAL ACTIVITY
Direct subsidiaries of The Paragon Group of Companies PLC		
Paragon Finance PLC	100%	Residential mortgages and asset administration
Mortgage Trust Limited	100%	Residential mortgages
Paragon Mortgages Limited	100%	Residential mortgages
Paragon Vehicle Contracts Limited	100%	Vehicle fleet management
Paragon Car Finance Limited	100%	Vehicle finance
Paragon Personal Finance Limited	100%	Unsecured lending
Paragon Mortgages (No. 7) PLC	100%	Residential mortgages
Paragon Mortgages (No. 8) PLC	100%	Residential mortgages
Paragon Mortgages (No. 9) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 10) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 11) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 12) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 13) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 14) PLC	100% *	Residential mortgages
Paragon Mortgages (No. 15) PLC	100% *	Residential mortgages
Paragon Loan Finance (No. 1) PLC	100%	Loan and vehicle finance
Paragon Loan Finance (No. 2) PLC	100%	Loan and vehicle finance
Paragon Personal and Auto Finance (No. 2) PLC	100%	Loan and vehicle finance
Paragon Personal and Auto Finance (No. 3) PLC	100%	Loan and vehicle finance
Paragon Secured Finance (No. 1) PLC	100%	Loan finance
First Flexible (No. 7) PLC	100% *	Residential mortgages
Subsidiary of Paragon Mortgages Limited		
Paragon Second Funding Limited	100%	Residential mortgages and loan and vehicle finance
Subsidiaries of Mortgage Trust Limited		
Mortgage Trust Services plc	100%	Residential mortgages and asset administration
First Flexible No. 6 PLC	74%	Residential mortgages
Subsidiaries of Mortgage Trust Services plc		
TMC Tattenham No. 1 PLC	100%	Residential mortgages
TMC Tattenham No. 2 PLC	100%	Residential mortgages

The holdings shown above are those held by the Group. These are the same as those held by the parent company identified above, except that for the shareholdings marked * the parent company holds only 74% of the share capital, the remainder being held by other group companies.

The issued share capital of all subsidiaries consists of ordinary share capital, except that First Flexible No. 6 PLC has additional preference share capital held by the Group. The minority interest in this company is not material.

22. PRINCIPAL OPERATING SUBSIDIARIES (continued)

In addition, prior to its acquisition by the Group, certain loans originated by Mortgage Trust Limited had been sold to special purpose entity companies, ultimately beneficially owned by charitable trusts, which had raised non-recourse finance to fund these purchases. The Group is considered to control these entities, as defined by SIC-12 'Special Purpose Entities' and hence they are considered to be subsidiaries of the Group.

The companies party to these arrangements are:

	PRINCIPAL ACTIVITY
Arianty No. 1 plc	Residential mortgages
First Flexible No. 1 plc	Residential mortgages
First Flexible No. 3 plc	Residential mortgages
First Flexible No. 4 plc	Residential mortgages
First Flexible No. 5 plc	Residential mortgages
Mortgage Funding Corporation plc	Residential mortgages

23. INTEREST IN ASSOCIATE

On 25 January 2007 the Group acquired a 33% interest in the equity of The Business Mortgage Company Limited, a mortgage broker. This company operates in the United Kingdom and is registered in England and Wales. The net assets position of the associate and its result for the period from 25 January 2007 to 30 September 2007 are shown below.

	2007 **£m**	2006 £m
Total assets	**18.9**	-
Total liabilities	**(17.8)**	-
Total equity	**1.1**	-
Revenue	**4.1**	-
Costs	**(3.2)**	-
Profit before tax	**0.9**	-
Taxation	**(0.3)**	-
Profit after tax	**0.6**	-

In the period from 25 January 2007 to 30 September 2007 the associate was charged £1.2m by the Group and the Company in interest and received £1.8m in commission income from Group companies. The Group has provided the associate with certain management services.

(a) The Group

Equity interest in the associate carried in the consolidated balance sheet using the equity method.

	2007 £m	2006 £m
At 1 October 2006	**-**	-
Additions	**0.3**	-
Share of profit of associate	**0.2**	-
Dividends received	**-**	-
At 30 September 2007	**0.5**	-

(b) The Company

Equity interest in the associate carried in the balance sheet of the Company at cost.

	2007 £m	2006 £m
At 1 October 2006	**-**	-
Additions	**0.3**	-
At 30 September 2007	**0.3**	-

24. FINANCIAL ASSETS

	THE GROUP		THE COMPANY	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Loans and receivables (note 25)	**10,892.7**	8,279.0	**-**	-
Finance lease receivables (note 26)	**142.2**	147.6	**-**	-
Loans to customers (note 27)	**11,034.9**	8,426.6	**-**	-
Fair value adjustments from portfolio hedging	**(22.8)**	(14.0)	**-**	-
Loans to associate (note 28)	**15.4**	-	**15.4**	-
Derivative financial assets (note 29)	**92.0**	20.3	**-**	-
	11,119.5	8,432.9	**15.4**	-

25. LOANS AND RECEIVABLES

Loans and receivables at 30 September 2007 and 30 September 2006, which are all denominated and payable in sterling, were:

	2007 £m	2006 £m
First mortgage loans	**10,325.1**	7,643.8
Secured loans	**448.9**	509.0
Retail finance loans	**61.8**	53.1
Other unsecured loans	**56.9**	73.1
	10,892.7	8,279.0

First mortgages are secured on residential property within the United Kingdom; Secured loans enjoy second charges on residential property. Retail finance loans are unsecured.

Mortgage loans have a contractual term of up to thirty years, secured loans up to twenty five years, retail finance loans up to ten years and other unsecured loans up to ten years. In all cases the borrower is entitled to settle the loan at any point and in most cases early settlement does take place. All borrowers are required to make monthly payments, except where an initial deferred period is included in the contractual terms.

The average rate of interest being charged on customer accounts and the average rate at which income is being recognised under the effective interest rate method at 30 September 2007 and 30 September 2006 were:

	AVERAGE RATE CHARGED TO CUSTOMERS		AVERAGE EFFECTIVE INTEREST RATE	
	2007	2006	**2007**	2006
First mortgage loans	**5.79%**	5.82%	**6.53%**	6.18%
Secured loans	**9.03%**	8.95%	**8.65%**	8.09%
Retail finance loans	**10.88%**	10.49%	**8.72%**	10.12%
Other unsecured loans	**21.07%**	18.08%	**21.01%**	18.10%

The interest rate repricing profile of the above loans is shown in note 4.

The loans shown left pledged as collateral for the liabilities described in note 45 at 30 September 2007 and 30 September 2006 were:

	FIRST MORTGAGES £m	CONSUMER FINANCE £m	TOTAL £m
30 September 2007			
In respect of:			
Asset backed loan notes	9,342.9	515.9	9,858.8
Warehouse facilities	946.0	15.8	961.8
Total pledged as collateral	10,288.9	531.7	10,820.6
Not pledged as collateral	36.2	35.9	72.1
	10,325.1	567.6	10,892.7
30 September 2006			
In respect of:			
Asset backed loan notes	6,360.2	553.0	6,913.2
Warehouse facilities	1,237.9	40.4	1,278.3
Total pledged as collateral	7,598.1	593.4	8,191.5
Not pledged as collateral	45.7	41.8	87.5
	7,643.8	635.2	8,279.0

26. FINANCE LEASE RECEIVABLES

The Group's finance lease receivables are car finance loans. The average contractual life of such loans is 53 months (2006: 53 months), but it is likely that a significant proportion of customers will choose to settle their obligations early.

The contractual interest rate inherent in these leases is fixed at the outset. The average effective interest rate in these contracts is 7.4% per annum (2006: 7.8% per annum).

	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Amounts receivable under finance leases				
Within one year	**43.8**	49.1	**38.0**	43.1
Within two to five years	**114.3**	114.9	**98.7**	100.1
After five years	**4.4**	4.2	**3.8**	3.7
	162.5	168.2		
Less: future finance income	**(22.0)**	(21.3)		
Present value of lease obligations	**140.5**	146.9	**140.5**	146.9
Allowance for uncollectable amounts	**(2.3)**	(2.5)	**(2.3)**	(2.5)
Provision for recoveries	**4.0**	3.2	**4.0**	3.2
Present value of lease obligations	**142.2**	147.6	**142.2**	147.6

The Group considers that the fair value of its finance lease receivables is not significantly different to their carrying values. The interest rate repricing profile of the above loans is shown in note 4.

The loans shown above pledged as collateral for liabilities at 30 September 2007 and 30 September 2006 were:

	2007 £m	2006 £m
In respect of:		
Asset backed loan notes	**133.2**	129.8
Warehouse facilities	**5.0**	14.6
Total pledged as collateral	**138.2**	144.4
Not pledged as collateral	**4.0**	3.2
At 30 September 2007	**142.2**	147.6

27. LOANS TO CUSTOMERS

The movement in the Group's investment in loans to customers in the year ended 30 September 2007 was:

	2007 £m	2006 £m
Cost		
At 1 October 2006		
Brought forward	**8,426.6**	6,528.7
Adoption of IAS 32 and IAS 39	**-**	(97.6)
	8,426.6	6,431.1
Acquisitions	**-**	91.0
Additions	**4,334.9**	3,433.0
Disposals	**(9.8)**	(67.8)
EIR adjustments	**39.0**	(9.5)
Other debits	**680.2**	503.2
Repayments and redemptions	**(2,436.0)**	(1,954.4)
At 30 September 2007	**11,034.9**	8,426.6

'Other debits' includes primarily interest charged to customers on loans outstanding and impairment movements on these loans.

28. LOANS TO ASSOCIATE

Loans to the associated undertaking at 30 September 2007 are all denominated and payable in sterling. Interest is charged on these loans at a fixed margin above six-month LIBOR. Details of these loans are shown below.

	2007 £m	2006 £m
Carrying value (£m)	**15.4**	-
Outstanding principal (£m)	**16.1**	-
Maximum contractual life (months)	**108**	-
Average contractual life (months)	**76**	-
Maximum remaining life (months)	**100**	-
Average remaining life (months)	**68**	-
Average margin charged above LIBOR	**4.14%**	-

The fair values of these loans are not considered to be significantly different to their carrying values and the effective interest rates are not materially different to the rates charged.

The interest rate repricing profile of the above loans is shown in note 4.

29. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

All of the Group's financial derivatives are held for economic hedging purposes, although not all may be designated for hedge accounting in accordance with the provisions of IAS 39. The analysis below therefore splits derivatives between those accounted for as hedges and those which, while representing an economic hedge do not qualify for this treatment.

Derivative financial assets and liabilities are included within Financial Assets (note 24) and Financial Liabilities (note 44) respectively.

(a) The Group

	2007 NOTIONAL AMOUNT £m	**2007 ASSETS £m**	**2007 LIABILITIES £m**	2006 NOTIONAL AMOUNT £m	2006 ASSETS £m	2006 LIABILITIES £m
Derivatives in accounting hedge relationships						
Fair value hedges						
Interest rate swaps	**5,850.0**	**42.4**	**(11.0)**	3,965.0	17.9	(2.9)
	5,850.0	**42.4**	**(11.0)**	3,965.0	17.9	(2.9)
Cash flow hedges						
Foreign exchange basis swaps	**7,250.3**	**47.3**	**(414.3)**	4,535.1	0.5	(156.7)
Interest rate swaps	**26.8**	**0.2**	**(0.1)**	37.5	0.1	(0.8)
	7,277.1	**47.5**	**(414.4)**	4,572.6	0.6	(157.5)
	13,127.1	**89.9**	**(425.4)**	8,537.6	18.5	(160.4)
Other derivatives						
Interest rate swaps	**847.5**	**1.7**	**(0.7)**	695.4	1.5	(1.9)
Interest rate caps	**72.7**	**0.4**	**-**	101.8	0.3	-
	920.2	**2.1**	**(0.7)**	797.2	1.8	(1.9)
Total recognised derivative assets / (liabilities)	**14,047.3**	**92.0**	**(426.1)**	9,334.8	20.3	(162.3)

(b) The Company

	2007 NOTIONAL AMOUNT £m	**2007 ASSETS £m**	**2007 LIABILITIES £m**	2006 NOTIONAL AMOUNT £m	2006 ASSETS £m	2006 LIABILITIES £m
Derivatives in accounting hedge relationships						
Fair value hedges						
Interest rate swaps	**120.0**	**-**	**(4.0)**	120.0	-	(0.4)
	120.0	**-**	**(4.0)**	120.0	-	(0.4)
Total recognised derivative assets / (liabilities)	**120.0**	**-**	**(4.0)**	120.0	-	(0.4)

30. RETIREMENT BENEFIT OBLIGATIONS

The Group operates a funded defined benefit pension scheme in the UK. A full actuarial valuation was carried out at 31 March 2004 and updated to 30 September 2007 by a qualified independent actuary.

The liabilities of the benefit scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the Projected Unit method. This amount is reflected in the asset in the balance sheet. The Projected Unit method is an accrued benefits valuation method in which the technical provisions are calculated based on service up until the valuation date allowing for future salary growth until the date of retirement, withdrawal or death, as appropriate. The future service rate is then calculated as the contribution rate required to fund the service accruing over the control period again allowing for future salary growth. As a result of the Plan being closed to new entrants, the service cost will increase as the members of the Plan approach retirement. The major weighted average assumptions used by the actuary were (in nominal terms):

	30 SEPTEMBER 2007	30 SEPTEMBER 2006
In determining net pension cost for the year		
Discount rate	**5.20%**	5.10%
Rate of compensation increase	**3.70%**	3.50%
Rate of increase of pensions		
in payment (accrued before 6 April 2006)	**2.70%**	2.50%
in payment (accrued after 5 April 2006)	**2.25%**	2.25%
in deferment	**2.70%**	2.50%
In determining benefit obligations		
Discount rate	**6.10%**	5.20%
Rate of compensation increase	**4.10%**	3.70%
Rate of increase of pensions		
in payment (accrued before 6 April 2006)	**3.10%**	2.70%
in payment (accrued after 5 April 2006)	**2.50%**	2.25%
in deferment	**3.10%**	2.70%
Further life expectancy at age 60		
Pensioner (male)	**26**	26
Pensioner (female)	**29**	29
Non-retired member (male)	**29**	28
Non-retired member (female)	**32**	31

30. RETIREMENT BENEFIT OBLIGATIONS (continued)

The assets in the Plan at 30 September 2007 and 30 September 2006 and the expected rates of return were:

	AT 30 SEPTEMBER 2007			AT 30 SEPTEMBER 2006		
	LONG TERM RATE OF RETURN EXPECTED	**VALUE £m**	**ASSET ALLOCATION**	LONG TERM RATE OF RETURN EXPECTED	VALUE £m	ASSET ALLOCATION
Equities	**7.7%**	**37.4**	**76.0%**	7.0%	32.7	74.5%
Bonds	**5.6%**	**11.7**	**23.8%**	4.3%	11.2	25.5%
Other	**0.5%**	**0.1**	**0.2%**	-	-	-
Total market value of assets		**49.2**			43.9	
Present value of scheme liabilities		**(45.0)**			(43.6)	
Surplus / (deficit) in the scheme		**4.2**			0.3	

The pension scheme assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interests of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's trust documentation. The Group has a policy that one third of all trustees should be nominated by active and pensioner members of the fund.

At 30 September 2007 the scheme assets were invested in a diversified portfolio that consisted primarily of equity and gilt investments. The target asset allocations for the year ending 30 September 2008 are 75% equities, 20% bonds and 5% other assets.

In conjunction with the trustees, the Group has recently conducted an asset-liability review of the Group. These studies are used to assist the trustees and the Group to determine the optimal long-term asset allocation with regard to the structure of liabilities within the scheme. The results of the study are used to assist the trustees in managing the volatility in the underlying investment performance and risk of a significant increase in the scheme deficit by providing information used to determine the pension scheme investment strategy.

The majority of the equities held by the scheme are in international blue chip entities. To maintain a wide range of diversification, a proportion of the equity investment (approximately 5%) is to be diverted to a diversified growth fund or GTAA during 2007.

The rate of return expected on scheme assets is based on the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with other asset classes in which the portfolio is invested and the expectations for future returns of each asset class.

The movement in the market value of the scheme assets during the year was as follows:

	2007 £m	2006 £m
At 1 October 2006	**43.9**	24.5
Movement in year		
Contributions by the Group	**2.0**	17.2
Contributions by scheme members	**0.4**	0.4
Benefits paid	**(0.8)**	(0.8)
Expected return on scheme assets	**2.8**	2.2
Actuarial gain	**0.9**	0.4
At 30 September 2007	**49.2**	43.9

The actual rate of return on scheme assets in the year ended 30 September 2007 was 8.6% (2006: 11.4%)

The movement in the present value of the scheme liabilities during the year was as follows:

	2007 £m	2006 £m
At 1 October 2006	**43.6**	39.1
Movement in year		
Current service cost	**1.9**	1.9
Past service costs	**0.1**	-
Contributions by scheme members	**0.4**	0.4
Benefits paid	**(0.8)**	(0.8)
Finance cost	**2.3**	2.0
Actuarial (gain) / loss	**(2.5)**	1.0
At 30 September 2007	**45.0**	43.6

The most recent valuation of the scheme liabilities on a buy out basis obtained by the trustees in accordance with section 224 of the Pensions Act 2004 was calculated at 30 September 2006, when the valuation on that basis was £85.3m.

The sensitivity of the valuation of the scheme liabilities to the principal assumptions disclosed above at 30 September 2007 is as follows:

ASSUMPTION	INCREASE IN ASSUMPTION	IMPACT ON SCHEME LIABILITIES
Discount rate	0.1%	Decrease by 2.6%
Rate of inflation *	0.1%	Increase by 2.4%
Rate of salary growth	0.1%	Increase by 0.9%
Rates of mortality	1 year of life expectancy	Increase by 1.9%

* maintaining a 1% real increase in salary growth

The duration of the scheme's liabilities are shown in the table below:

CATEGORY OF MEMBER	DURATION OF LIABILITY YEARS
Active members	29
Deferred pensioners	28
Current pensioners	13
All members	28

The Group's funding objective for the plan is to achieve within 15 years, and then maintain, a funding target which requires assets equal to 100% of the present value of benefits based on completed service including provision for the effects of future salary growth and inflation up to retirement.

The agreed rate of employer contributions was 38.4% of gross salaries for participating employees until 31 March 2006 and 24.5% of gross salaries for participating employees thereafter.

The Group and the Trustees are currently involved in discussions regarding the level of contributions which will be made to the plan by the Group in the year ending 30 September 2008.

30. RETIREMENT BENEFIT OBLIGATIONS (continued)

The amounts charged in the income statement in respect of the pension scheme are:

	2007 £m	2006 £m
Current service cost	**1.9**	1.9
Past service cost	**0.1**	-
Included within operating expenses (note 10)	**2.0**	1.9
Expected return on scheme assets (note 7)	**(2.8)**	(2.2)
Funding cost of scheme liability (note 8)	**2.3**	2.0
Total expense recognised in profit	**1.5**	1.7

The actuarial gains in the statement of recognised income and expenditure in respect of the pension scheme are:

	2007 £m	2006 £m
Gain on scheme assets	**0.9**	0.4
Gain / (loss) on scheme liabilities	**2.5**	(1.0)
Total actuarial gain / (loss)	**3.4**	(0.6)
Tax thereon (note 41)	**(1.0)**	0.2
Net actuarial gain / (loss) (note 39)	**2.4**	(0.4)

The cumulative value of actuarial losses charged to the Statement of Recognised Income and Expenditure since 1 October 2001, the first date on which a valuation of the scheme assets and liabilities on a basis consistent with IAS 19 was carried out is £9.5m (2006: £12.9m):

The five year history of experience adjustments on the scheme is as shown below:

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Fair value of scheme assets	**49.2**	43.9	24.5	18.3	15.5
Present value of scheme obligations	**(45.0)**	(43.6)	(39.1)	(32.6)	(22.0)
Surplus / (deficit) in the scheme	**4.2**	0.3	(14.6)	(14.3)	(6.5)
Experience adjustments on scheme assets:					
Amount (£m)	**0.9**	0.4	2.6	0.3	1.3
Percentage of scheme assets	**1.8%**	1%	11%	1%	8%
Experience adjustments on scheme liabilities:					
Amount (£m)	**2.5**	-	-	(1.7)	-
Percentage of scheme liabilities	**5.6%**	-	-	(5)%	-

In addition to the Group Pension Scheme, the Group operates a defined contribution (Stakeholder) pension scheme. Contributions made by the Group to this scheme in the year ended 30 September 2007 were £0.1m (2006: £0.1m).

31. DEFERRED TAX

The movements in the net deferred tax asset are as follows:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Net asset at 1 October 2006	**33.6**	4.0	**-**	-
Adoption of IAS 32 and IAS 39	**-**	30.9	**-**	-
Income statement (charge) (note 16)	**(14.2)**	(7.2)	**-**	-
Charge / (credit) to equity (note 41)	**(3.3)**	5.9	**-**	-
Net asset at 30 September 2007	**16.1**	33.6	**-**	-

The deferred tax which arose on adoption of IAS 32 and IAS 39 includes £29.2m relating to the changes in carrying value of loan assets on the adoption of the effective interest rate method and the IAS 39 rules on impairment and £1.7m arising on the recognition of financial derivatives at fair value.

The net deferred tax asset for which provision has been made is analysed as follows:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Accelerated tax depreciation	**2.8**	2.4	**-**	-
Retirement benefit obligations	**0.9**	3.3	**-**	-
Impairment and other provisions	**0.4**	21.2	**-**	-
Tax losses	**10.0**	-	**-**	-
Other timing differences	**2.0**	6.7	**-**	-
Net deferred tax asset	**16.1**	33.6	**-**	-

Temporary differences arising in connection with interests in the associated undertaking are not significant.

32. OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Current assets				
Amounts owed by Group companies	**-**	-	**85.3**	65.5
Other debtors	**3.6**	3.8	**-**	-
Prepayments and accrued income	**3.1**	2.5	**0.3**	-
	6.7	6.3	**85.6**	65.5

The fair values of the above items are not considered to be materially different to their carrying values.

33. CASH AND CASH EQUIVALENTS

Cash received in respect of loan assets is not immediately available for Group purposes, due to the terms of the warehouse facilities and the securitisations. Included within 'Cash and Cash Equivalents' at 30 September 2007 is £875.1m subject to such restrictions (2006: £601.2m).

'Cash and Cash Equivalents' also includes £2.2m (2006: £0.9m) held by the Trustees of the Paragon Employee Share Ownership Plans which may only be used to invest in the shares of the Company, pursuant to the aims of those plans.

Cash and Cash Equivalents includes current bank balances and fixed rate sterling term deposits with London banks.

34. CALLED-UP SHARE CAPITAL

	2007 £m	2006 £m
Authorised:		
175,000,000 (2006: 175,000,000) ordinary shares of 10p each	**17.5**	17.5
Allotted and paid-up:		
121,493,242 (2006: 121,452,366) ordinary shares of 10p each	**12.1**	12.1

Movements in the issued share capital in the year were:

	2007 NUMBER	2006 NUMBER
Ordinary shares of 10p each		
At 1 October 2006	**121,452,366**	120,762,342
Shares issued in respect of share option schemes	**40,876**	690,024
At 30 September 2007	**121,493,242**	121,452,366

35. RESERVES

	THE GROUP		THE COMPANY	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Share premium account (note 36)	**71.5**	71.4	**71.5**	71.4
Merger reserve (note 37)	**(70.2)**	(70.2)	**(23.7)**	(23.7)
Cash flow hedging reserve (note 38)	**(2.4)**	(1.5)	**-**	-
Profit and loss account (note 39)	**359.1**	314.9	**169.2**	114.5
	358.0	314.6	**217.0**	162.2

36. SHARE PREMIUM ACCOUNT

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Balance at 1 October 2006	**71.4**	70.2	**71.4**	70.2
Share options exercised	**0.1**	1.2	**0.1**	1.2
Balance at 30 September 2007	**71.5**	71.4	**71.5**	71.4

37. MERGER RESERVE

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Balance at 1 October 2006	**(70.2)**	(70.2)	**(23.7)**	(23.7)
Balance at 30 September 2007	**(70.2)**	(70.2)	**(23.7)**	(23.7)

38. CASH FLOW HEDGING RESERVE

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Balance at 1 October 2006				
As originally reported	**(1.5)**	**-**	-	-
Adoption of IAS 32 and 39	**-**	**(2.6)**	-	-
	(1.5)	**(2.6)**	-	-
Movement in fair value of hedging derivatives	**(1.4)**	**1.5**	-	-
Deferred tax thereon (note 41)	**0.5**	**(0.4)**	-	-
Balance at 30 September 2007	**(2.4)**	**(1.5)**	-	-

39. PROFIT AND LOSS ACCOUNT

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Balance at 1 October 2006				
As previously stated	**314.9**	323.5	**114.5**	181.7
Adoption of IAS 32 and 39	**-**	(69.9)	**-**	(52.5)
	314.9	253.6	**114.5**	129.2
Dividends paid (note 40)	**(20.1)**	(16.0)	**(20.8)**	(16.8)
Share options exercised (note 42)	**(1.6)**	(0.6)	**-**	-
Charge for share based remuneration (note 10)	**2.6**	0.6	**2.6**	0.6
Tax on share based remuneration (note 41)	**(1.9)**	8.9	**-**	-
Actuarial gain / (loss) on retirement obligation (note 30)	**2.4**	(0.4)	**-**	-
Profit for the year	**62.8**	68.8	**72.9**	1.5
Balance at 30 September 2007	**359.1**	314.9	**169.2**	114.5

40. EQUITY DIVIDEND

Amounts recognised as distributions to equity shareholders in the period:

	2007	2006	**2007**	2006
	PER SHARE	PER SHARE	**£m**	£m
Equity dividends on ordinary shares				
Final dividend for the year ended 30 September 2006	**10.1p**	7.4p	**11.2**	8.4
Interim dividend for the year ended 30 September 2007	**8.0p**	6.9p	**8.9**	7.6
	18.1p	14.3p	**20.1**	16.0

Amounts paid and proposed in respect of the year:

	2007	2006	**2007**	2006
	PER SHARE	PER SHARE	**£m**	£m
Interim dividend for the year ended 30 September 2007	**8.0p**	6.9p	**8.9**	7.6
Proposed final dividend for the year ended 30 September 2007	**-**	10.1p	**-**	11.2
	8.0p	17.0p	**8.9**	18.8

Dividends of £0.7m (2006: £0.8m) were paid by the Company in respect of shares held by ESOP trusts on which dividends had not been waived.

41. TAX CHARGED / CREDITED TO EQUITY

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
On actuarial gain / (loss) on pension scheme (note 30)	**(1.0)**	0.2	**-**	-
On gains / (losses) on cash flow hedges (note 38)	**0.5**	(0.4)	**-**	-
Tax on items taken to equity	**(0.5)**	(0.2)	**-**	-
On share based payment	**(1.9)**	8.9	**-**	-
Total tax (charged) / credited to equity	**(2.4)**	8.7	**-**	-
Of which				
Current tax	**0.9**	2.8	**-**	-
Deferred tax (note 31)	**(3.3)**	5.9	**-**	-
	(2.4)	8.7	**-**	-

Included in tax charged to equity is £0.1m (2006: £nil) in respect of the effect of the changes in corporation tax rates described in note 16 on deferred tax assets.

42. TRANSACTIONS IN SHARES

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Awards from ESOP schemes				
Proceeds (note 52)	**0.8**	1.9	**-**	-
Cost of shares issued (note 43)	**(2.4)**	(2.5)	**-**	-
(Deficit) on exercise (note 39)	**(1.6)**	(0.6)	**-**	-
Shares issued				
Nominal value (note 4)	**-**	-	**-**	-
Premium on issue (note 36)	**0.1**	1.2	**0.1**	1.2
Proceeds of issue (note 52)	**0.1**	1.2	**0.1**	1.2
(Deficit) / surplus on transactions in own shares	**(1.5)**	0.6	**0.1**	1.2

43. OWN SHARES

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Treasury shares				
At 1 October 2006	**31.4**	8.3	**31.4**	8.3
Shares purchased	**8.1**	23.1	**8.1**	23.1
At 30 September 2007	**39.5**	31.4	**39.5**	31.4
ESOP shares				
At 1 October 2006	**16.3**	14.5	**-**	-
Shares purchased	**3.4**	4.3	**-**	-
Options exercised (note 42)	**(2.4)**	(2.5)	**-**	-
At 30 September 2007	**17.3**	16.3	**-**	-
Balance at 30 September 2007	**56.8**	47.7	**39.5**	31.4

At 30 September 2007 the number of the Company's own shares held in treasury was 6,689,000 (2006: 5,244,000). These shares had a nominal value of £668,900 (2006: £524,400). The dividends on these shares have been waived.

The ESOP shares are held in trust for the benefit of employees exercising their options under the Company's share option schemes and awards under the Paragon Performance Share Plan, Matching Share Plan and Deferred Bonus Scheme. The trustees' costs are included in the operating expenses of the Group. At 30 September 2007, the trusts held 4,510,734 shares (2006: 5,028,353) with a nominal value of £451,073 (2006: £502,835) and a market value of £13,543,479 (2006: £33,891,099). Options, or other share-based awards, were outstanding against 4,271,664 of these shares at 30 September 2007 (2006: 4,851,712). The dividends on 1,174,566 of these shares have been waived (2006: 629,909).

44. FINANCIAL LIABILITIES

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Current liabilities				
Finance lease liability	**0.5**	0.4	**0.5**	0.4
Bank loans and overdrafts	**280.4**	127.6	**-**	-
	280.9	128.0	**0.5**	0.4
Non-current liabilities				
Asset backed loan notes	**9,892.6**	7,057.7	**-**	-
Corporate bond	**115.8**	117.9	**115.8**	117.9
Finance lease liability	**13.4**	13.9	**13.4**	13.9
Bank loans and overdrafts	**931.7**	1,267.9	**-**	-
Derivative financial instruments	**426.1**	162.3	**4.0**	0.4
	11,379.6	8,619.7	**133.2**	132.2

The Group's securitisation borrowings are denominated in sterling, euros and US dollars. All currency borrowings are swapped at inception so that they have the effect of sterling borrowings. These swaps provide an effective hedge against exchange rate movements, but the requirement to carry them at fair value leads, when exchange rates have moved significantly since the issue of the notes, to large balances for the swaps being carried in the balance sheet. This is currently the case with US dollar swaps, although the credit balance is compensated for by retranslating the borrowings at the current exchange rate.

A maturity analysis of the above borrowings and further details of asset backed loan notes and bank loans are given in note 45.

Further details of finance lease liabilities are given in note 46 and further details of derivative financial instruments are given in note 29.

45. BORROWINGS

Set out below is the maturity profile of the Group's borrowings at 30 September 2007 and 30 September 2006:

	FINANCIAL LIABILITIES FALLING DUE:				**2007**	FINANCIAL LIABILITIES FALLING DUE:				2006
	IN ONE YEAR OR LESS, OR ON DEMAND	IN MORE THAN ONE YEAR, BUT NOT MORE THAN TWO YEARS	IN MORE THAN TWO YEARS, BUT NOT MORE THAN FIVE YEARS	IN MORE THAN FIVE YEARS	**TOTAL**	IN ONE YEAR OR LESS, OR ON DEMAND	IN MORE THAN ONE YEAR, BUT NOT MORE THAN TWO YEARS	IN MORE THAN TWO YEARS, BUT NOT MORE THAN FIVE YEARS	IN MORE THAN FIVE YEARS	TOTAL
	£m	£m	£m	£m	**£m**	£m	£m	£m	£m	£m
Bank overdrafts	0.5	-	-	-	**0.5**	0.4	-	-	-	0.4
Bank loans	279.9	-	-	931.7	**1,211.6**	127.2	149.6	7.0	1,111.3	1,395.1
Corporate bond	-	-	-	115.8	**115.8**	-	-	-	117.9	117.9
Asset backed loan notes	-	-	-	9,892.6	**9,892.6**	-	-	-	7,057.7	7,057.7
	280.4	-	-	10,940.1	**11,220.5**	127.6	149.6	7.0	8,286.9	8,571.1

The fair values of borrowings are not considered to be significantly different to their carrying values and the effective interest rates are not materially different to the rates charged.

(a) Asset Backed Loan Notes

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. The maturity date of the notes matches the maturity date of the underlying assets. It is likely that a substantial proportion of these notes will be repaid within five years.

In each issue there exists an option for the Group to repay all of the notes at an earlier date (the 'call date'), at the outstanding principal amount.

Interest is payable at a fixed margin above;

- the London Interbank Offered Rate ('LIBOR') on notes denominated in sterling;
- the Euro Interbank Offered Rate ('EURIBOR') on notes denominated in euros; and
- the London Interbank Offered Rate ('US Dollar LIBOR') on notes denominated in US dollars.

All payments in respect of the notes are required to be made in the currency in which they are denominated.

The notes outstanding at 30 September 2007 comprised £9,140.0m (2006: £6,312.6m) in respect of mortgage backed notes and £752.6m (2006: £745.1m) in respect of notes backed by other loan assets. The details of the assets backing these securities are given in notes 25 and 26.

A more detailed description of the securitisation structure under which these notes are issued is given in note 4.

Notes in issue at 30 September 2007 and 30 September 2006 were:

ISSUER	MATURITY DATE	CALL DATE	PRINCIPAL OUTSTANDING		AVERAGE INTEREST MARGIN	
			2007	2006	**2007**	2006
Sterling notes			**£m**	£m	**%**	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**127.0**	163.0	**0.21**	0.21
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	**364.2**	389.5	**0.27**	0.26
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**241.4**	315.0	**0.19**	0.18
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**187.5**	187.5	**0.28**	0.28
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**150.3**	162.2	**0.14**	0.13
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**175.7**	187.0	**0.17**	0.16
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**186.7**	-	**0.16**	-
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**194.0**	-	**0.15**	-
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**226.5**	-	**0.14**	-
First Flexible No. 1 PLC	30/11/31	30/10/05	**-**	48.3	**-**	0.57
First Flexible No. 3 PLC	01/06/34	01/11/06	**-**	114.7	**-**	0.47
First Flexible No. 4 PLC	01/07/36	01/07/08	**148.9**	207.6	**0.46**	0.40
First Flexible No. 5 PLC	01/06/34	01/07/09	**163.9**	223.9	**0.42**	0.36
First Flexible No. 6 PLC	01/12/35	01/03/08	**132.8**	182.9	**0.53**	0.45
First Flexible No. 7 PLC	15/09/33	15/03/11	**214.9**	-	**0.12**	-
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	**204.5**	204.5	**0.34**	0.34
Paragon Secured Finance (No. 1) PLC	15/11/35	15/11/08	**300.0**	300.0	**0.35**	0.35
US dollar notes			**$m**	$m	**%**	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**342.5**	417.1	**0.34**	0.31
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**40.1**	52.8	**0.18**	0.18
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**787.2**	1,030.2	**0.09**	(0.02)
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**885.3**	963.6	**(0.01)**	(0.01)
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**1,669.4**	1,811.0	**0.01**	0.00
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**1,741.6**	-	**0.03**	-
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**1,856.7**	-	**0.02**	-
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**1,150.0**	-	**0.01**	-
First Flexible No. 6 PLC	01/12/35	01/03/08	**26.1**	40.0	**0.28**	0.28
Euro notes			**€m**	€m	**%**	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**353.9**	436.8	**0.31**	0.29
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	**494.4**	631.6	**0.22**	0.19
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**332.9**	408.4	**0.26**	0.24
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**269.0**	269.0	**0.20**	0.20
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**367.3**	384.8	**0.23**	0.22
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**457.8**	477.0	**0.23**	0.22
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**461.5**	-	**0.18**	-
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**464.7**	-	**0.20**	-
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**306.0**	-	**0.32**	-
First Flexible No. 6 PLC	01/12/35	01/03/08	**82.9**	119.9	**0.43**	0.38
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	**358.0**	358.0	**0.32**	0.32

During the year, Group companies issued £4,270.2m (2006: £3,500.6m) of mortgage backed floating rate notes at par and £nil (2006: £nil) of asset backed floating rate notes at par.

45. BORROWINGS (continued)

(b) Bank borrowings

During the year ended 30 September 2007 the Group had the following sterling borrowing facilities:

ISSUER		AVAILABLE FACILITY		PRINCIPAL OUTSTANDING		CARRYING VALUE	
		2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
(i)	Paragon Finance PLC	**280.0**	280.0	**280.0**	150.0	**279.9**	149.6
(ii)	Paragon Second Funding Limited	**2,325.0**	2,325.0	**932.0**	1,112.0	**931.7**	1,110.8
(iii)	Earlswood Finance PLC	**-**	0.5	**-**	0.5	**-**	0.5
(iv)	Arianty No. 1 PLC	**-**	10.0	**-**	7.0	**-**	7.0
(v)	Mortgage Funding Corporation PLC	**-**	134.5	**-**	127.3	**-**	127.2
		2,605.0	2,750.0	**1,212.0**	1,396.8	**1,211.6**	1,395.1

i. The Company and Paragon Finance have a committed corporate syndicated sterling bank facility used to provide working capital for the Group. This facility falls due for final repayment on 27 February 2008, but may be repaid and redrawn from time to time. The facility is secured by a fixed and floating charge over the assets of the Company, Paragon Finance PLC and certain other Group companies.

ii. Assets are typically securitised within twelve months of origination. Until that point new loans are funded by a bank facility (the 'warehouse facility'). This is drawn down to fund completions and repaid when assets are securitised. More information on this process is given in note 4.

   The warehouse facility is currently provided by a committed sterling facility provided to Paragon Second Funding Limited by a consortium of banks. This facility is secured on all the assets of Paragon Second Funding Limited, Paragon Car Finance Limited and Paragon Personal Finance Limited. This facility remains available for further drawings until 29 February 2008 and although its final repayment date is 28 February 2050 it is likely that substantial repayments will be made within the next five years.

   Details of assets held within the warehouse are given in notes 25 and 26.

iii. In connection with the acquisition of Mortgage Trust the Group, through Earlswood Finance PLC (formerly Paragon Mortgages (No. 14) PLC), entered into a bank loan secured against cashflows generated by certain of the acquired assets. Interest was payable on this loan at a rate of 1.35% above LIBOR. This facility was repaid in full on 10 October 2006.

iv. The committed sterling bank facility provided to Arianty No. 1 PLC was secured on all the assets of that company. The facility was repaid in full on 25 January 2007.

v. Assets originated by Mortgage Funding Corporation PLC were funded by a committed sterling bank facility. This facility was secured on all the assets of that company. The facility was repaid in full on 25 January 2007.

As with the asset backed loan notes, repayments of all of these facilities, other than the Paragon Finance facility, before the final repayment date are restricted to the amount of principal cash realised from the funded assets.

The Group additionally has entered into £85.0m (2006: £108.5m) of sterling revolving credit facilities to fund, where necessary, the purchase of mortgage redraws in certain subsidiary companies. At 30 September 2007 £nil (2006: £nil) had been drawn down under these facilities.

Interest on the bank facilities is payable monthly in sterling at various rates between 0.20% and 0.30% above LIBOR (2006: 0.20% and 1.35% above LIBOR). The weighted average margin above LIBOR on bank borrowings at 30 September 2007 was 0.23% (2006: 0.23%).

(c) Corporate Bond

On 20 April 2005 the Company issued £120.0m of 7% Callable Subordinated Notes at an issue price of 99.347% to provide long term capital for the Group. These bonds bear interest at a fixed rate of 7% per annum and are repayable on 20 April 2017, but may be repaid on 20 April 2012 at the Company's option. They are unsecured and subordinated to any other creditors of the Company. At 30 September 2007 £115.8m (2006: £117.9m) was included within financial liabilities in respect of these bonds.

46. OBLIGATIONS UNDER FINANCE LEASES

The finance lease obligations recorded in the accounts arise from a sale and leaseback transaction of the Group's former head office building in 1997 which falls to be treated as a finance lease under IAS 17 - 'Leases'. The lease expires in 2019 and is subject to five yearly rent reviews, with guaranteed minimum rent increases.

Obligations under this lease are:

	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Amounts payable under finance leases				
Within one year	**1.7**	1.7	**0.5**	0.4
Within two to five years	**7.8**	7.6	**3.4**	3.0
After five years	**13.2**	15.1	**10.0**	10.9
	22.7	24.4		
Less: future finance charges	**(8.8)**	(10.1)		
Present value of lease obligations	**13.9**	14.3	**13.9**	14.3

The fair value of the lease obligation is not considered to be materially different to the present value of the future obligations shown above. The interest rate implicit in the lease is 9.13% (2006: 9.13%).

At 30 September 2007 the minimum amount of payments expected to be received in respect of non-cancellable sub-leases in respect of this building was £5,600,000 (2006: £7,400,000).

47. CURRENT TAX LIABILITIES

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
UK Corporation Tax	**3.1**	1.4	**1.0**	1.0
	3.1	1.4	**1.0**	1.0

48. PROVISIONS

	2007	2006
	£m	£m
Provision at 1 October 2006	**4.4**	2.1
Created in year	**-**	2.1
Current year charge	**0.1**	1.1
Utilised in the year	**(0.9)**	(0.9)
Released in the year	**(1.6)**	-
Provision at 30 September 2007	**2.0**	4.4
Included in current liabilities	**1.4**	0.7
Included in non-current liabilities	**0.6**	3.7
	2.0	4.4

Provisions include committed future lease costs for properties no longer occupied by the Group. The provisions are expected to be utilised within five years.

49. OTHER LIABILITIES

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Current liabilities				
Amounts owed to Group companies	**-**	-	**277.0**	187.9
Accruals	**111.1**	78.2	**3.9**	4.5
	111.1	78.2	**280.9**	192.4
Non-current liabilities				
Accruals	**7.2**	5.9	**1.3**	1.5
	7.2	5.9	**1.3**	1.5

50. NET CASH FLOW FROM OPERATING ACTIVITIES

(a) The Group

	2007 £m	2006 £m
Profit before tax	**91.0**	82.8
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	**3.9**	3.5
Amortisation of intangible assets	**0.2**	0.2
Share of profit of associated undertaking	**(0.2)**	-
Foreign exchange movement on borrowings	**(208.8)**	(119.3)
Other non-cash movements on borrowings	**2.9**	5.3
Impairment losses on loans to customers	**50.5**	47.8
Charge for share based remuneration	**2.6**	0.6
Loss on disposal of property plant and equipment	**0.1**	-
Net (increase) / decrease in operating assets:		
Loans to customers	**(2,658.7)**	(1,951.2)
Loans to associate	**(15.4)**	-
Derivative financial instruments	**(71.7)**	3.6
Fair value of portfolio hedges	**8.8**	14.0
Other receivables	**(4.3)**	(2.3)
Net increase in operating liabilities:		
Derivative financial instruments	**263.8**	100.9
Other liabilities	**35.1**	5.5
Cash (utilised) by operations	**(2,500.2)**	(1,808.6)
Income taxes paid	**(11.4)**	(15.4)
	(2,511.6)	(1,824.0)

50. NET CASH FLOW FROM OPERATING ACTIVITIES (continued)

(b) The Company

	2007 £m	2006 £m
Profit / (loss) before tax	**67.5**	(3.9)
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	**0.9**	0.8
Non-cash movements on borrowings	**(2.1)**	(2.8)
Impairment losses on investments in subsidiaries	**(51.0)**	1.1
Charge for share based remuneration	**2.6**	0.6
Net (increase) / decrease in operating assets:		
Loans to associate	**(15.4)**	-
Derivative financial instruments	**-**	2.5
Other receivables	**(20.1)**	(5.7)
Net increase in operating liabilities:		
Derivative financial instruments	**3.6**	0.4
Other liabilities	**88.3**	76.7
Cash generated / (utilised) by operations	**74.3**	69.7
Income taxes paid	**5.4**	8.3
	79.7	78.0

51. NET CASH FLOW FROM INVESTING ACTIVITIES

	THE GROUP		THE COMPANY	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Proceeds on disposal of property, plant and equipment	**1.3**	1.2	**-**	-
Purchases of property, plant and equipment	**(7.0)**	(5.2)	**-**	-
Purchases of intangible assets	**(0.2)**	(0.5)	**-**	-
Acquisition of subsidiary undertakings net of cash acquired (note 53)	**-**	3.1	**-**	-
Investment in subsidiary undertakings	**-**	-	**(50.2)**	(38.9)
Investment in associated undertaking	**(0.3)**	-	**(0.3)**	-
Net cash (utilised) by investing activities	**(6.2)**	(1.4)	**(50.5)**	(38.9)

52. NET CASH FLOW FROM FINANCING ACTIVITIES

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Dividends paid	**(20.1)**	(16.0)	**(20.8)**	(16.8)
Issue of asset backed floating rate notes	**4,262.1**	3,493.6	**-**	-
Repayment of asset backed floating rate notes	**(1,223.7)**	(1,906.6)	**-**	-
Capital element of finance lease payments	**(0.4)**	(0.4)	**(0.4)**	(0.4)
Movement on bank facilities	**(184.6)**	371.5	**-**	-
Purchase of shares	**(11.5)**	(27.4)	**(8.1)**	(23.1)
Exercise of options under ESOP scheme	**0.8**	1.9	**-**	-
Exercise of other share options	**0.1**	1.2	**0.1**	1.2
Net cash generated / (utilised) by financing activities	**2,822.7**	1,917.8	**(29.2)**	(39.1)

53. PURCHASE OF SUBSIDIARY UNDERTAKINGS

During the year ended 30 September 2006 the Group acquired TMC Tattenham No. 1 PLC and TMC Tattenham No. 2 PLC. These two companies had been established by a third party to hold a portfolio of mortgage assets in run-off and were not, therefore, conducting a business as that term is defined in IFRS 3 - 'Business Combinations'. Thus the acquisition did not meet the definition of a business combination set out in IFRS 3 and, hence the disclosures required by that standard are not given.

The fair values of the assets acquired and the liabilities assumed were as follows:

	2006
	£m
Loans to customers	91.0
Other debtors	-
Cash	6.0
Borrowings	(89.6)
Other creditors	(4.5)
Total cash consideration	2.9
Less: cash acquired	(6.0)
Cash flow on acquisition less cash acquired	(3.1)

54. OPERATING LEASE ARRANGEMENTS

(a) As lessee

	THE GROUP		THE COMPANY	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Minimum lease payments under operating leases recognised in income for the year	**3.4**	3.5	**0.3**	0.3

At 30 September 2007 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	THE GROUP		THE COMPANY	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Amounts falling due:				
Within one year	**3.4**	3.4	**0.3**	0.3
Between two and five years	**11.8**	12.7	**1.0**	1.0
After more than five years	**10.0**	12.4	**1.7**	1.9
	25.2	28.5	**3.0**	3.2

Operating lease payments represent rents payable by the Group is respect of certain of its office premises and amounts attributed to land rent under the finance lease described in note 46. The average term of the current leases is 15 years (2006: 15 years) with rents subject to review every five years.

(b) As lessor

Certain of the Group's office premises which are not currently required by the Group have been sub-let. Rental income from these premises during the year ended 30 September 2007 was:

	THE GROUP		THE COMPANY	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Rental income	**1.9**	1.8	**1.8**	1.8

At 30 September 2007 the Group had received outstanding commitments from tenants for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	THE GROUP		THE COMPANY	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Amounts receivable:				
Within one year	**2.1**	1.9	**1.8**	1.8
Between two and five years	**5.5**	6.1	**3.8**	5.3
After more than five years	**0.8**	0.3	**-**	0.3
	8.4	8.3	**5.6**	7.4

55. CAPITAL COMMITMENTS

There were no capital commitments (2006: £nil) contracted but not provided for.

56. RELATED PARTY TRANSACTIONS

(a) The Group

The Group had no transactions with related parties other than the key management compensation disclosed in note 11 and the transactions with its associated undertaking disclosed in notes 23 and 28.

(b) The Company

During the year the parent company entered into transactions with its subsidiaries, which are related parties. Management services were provided to the Company by one of its subsidiaries and the Company granted awards under the share based payment arrangements described in note 12 to employees of subsidiary undertakings.

Details of the Company's investments in subsidiaries and the income derived from them are shown in note 21.

Outstanding current account balances with subsidiaries are shown in notes 32 and 49.

During the year the Company incurred interest costs of £20.0m in respect of borrowings from its subsidiaries (2006: £11.0m).

The Company has made investments in an associated undertaking and made loans to this associate. Details of equity investments in the associate are given in note 23 and details of loans to the associate are given in note 28.

57. EVENTS OCCURING AFTER THE BALANCE SHEET DATE

On 19 November 2007 the Group entered into a standby underwriting agreement with UBS. Under the terms of this agreement the Company has the right to require UBS to underwrite, in full, a rights issue of up to £280.0 million, before 27 February 2008 unless satisfactory alternative funding arrangements have been put in place prior to that time. The obligation of UBS is subject to the normal conditions, including all relevant approvals, including shareholder approval, being obtained; the absence of any material adverse change affecting the Group; and the absence of any force majeure event. The issue or offer price of any new shares will be determined at the time of launch of the issue in the light of the then prevailing market conditions.

58. ADOPTION OF IAS 32 AND IAS 39

Details of the impact of the adoption of IAS 32 and IAS 39 with effect from 1 October 2005 are included in note 56 of the annual report and accounts for the year ended 30 September 2006.

Appendices to the annual report

For the year ended 30 September 2007

A. COST:INCOME RATIO

Cost:income ratio is derived as follows:

	2007 £m	2006 £m
Operating expenses	**47.7**	45.4
Cost	**47.7**	45.4
Total operating income	**184.9**	173.5
Fair value net gains	**4.3**	2.5
Income	**189.2**	176.0
Cost / Income	**25.2%**	25.8%

B. PROFORMA FINANCIAL INFORMATION

To enable a more meaningful presentation of results, in addition to the statutory comparative information, the results for the year ended 30 September 2005 have been compiled on a proforma basis. This shows the Group's customer loan balances, borrowings and interest income as they would have been shown had IAS 32 and 39 applied to these balances.
The remaining adjustments required by these standards relate to fair values and hedging and cannot be applied as the required documentation for these arrangements was not in place at 1 October 2004. A reconciliation between the statutory comparatives and the proforma information was given in the announcement of 21 February 2006.

Financial highlights for 2005 on the proforma and statutory bases are shown below:

	2005 PROFORMA £m	2005 STATUTORY £m
Profit before taxation	71.7	71.8
Profit after taxation	55.7	55.8
Total loan assets	6,431.1	6,528.7
Shareholders' funds	244.4	312.8

		2005 PROFORMA	2005 STATUTORY
Earnings per share	- basic	48.8p	48.9p
	- diluted	46.8p	46.9p
Dividend per ordinary share		12.6p	12.6p

paragon

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