The Paragon Group of Companies PLC

Annual Report & Accounts 2009

paragon

Contents

Financial highlights

	2009 £m	2008 £m	2007 £m	2006 £m	2005 Proforma* £m	2005 Statutory £m
Underlying profit before taxation	**45.3**	66.9	86.7	80.3	71.7	71.8
Profit before taxation	**54.3**	53.7	91.0	82.8	71.7	71.8
Profit after taxation	**41.1**	37.1	62.8	68.8	55.7	55.8
Total loan assets	**9,314.3**	10,053.2	11,034.9	8,426.6	6,431.1	6,528.7
Shareholders' funds	**650.8**	621.5	313.3	279.0	244.4	312.8

	2009	2008	2007	2006	2005 Proforma *	2005 Statutory
Earnings per share						
- basic	**13.9p**	17.9p	90.5p	97.6p	77.8p	78.0p
- diluted	**13.7p**	17.9p	87.2p	93.1p	74.6p	74.8p
Dividend per £1 ordinary share	**3.3p**	3.0p	-	-	-	-
Dividend per 10p ordinary share	-	-	8.0p	17.0p	12.6p	12.6p

Earnings per share in the years ended 30 September 2005 to 30 September 2007 have been restated to account for the bonus effect of the rights issue in 2008.

The derivation of underlying profit before taxation is described in appendix B.

* For references to the proforma basis see appendix D.

Chairman's statement

In a year which has seen a deep UK recession and continuing turmoil in credit and banking markets, the Group has fared well and emerged strongly as a result of a business strategy established well before the current crisis took hold: a match funded, fully securitised book; a high credit quality loan portfolio; and strong operational management.

During the year ended 30 September 2009 the Group earned a profit of £54.3 million before taxation and after exceptional gains on debt repurchase and the charges for impairment and losses on fair valued hedge instruments (2008: £53.7 million). Underlying profit, before exceptional and fair value items, was £45.3 million for the year (2008: £66.9 million).

Earnings per share were 13.9p (2008: 17.9p), the reduction from last year resulting from the inclusion for the entire period of the increase in share capital from the rights issue in February 2008.

During the year the Group's activities have been managed in accordance with three clear strategic objectives: the protection of the embedded value of the business by close management of the loan portfolio; the development of new sources of recurring income using the skills and resources of the business; and positioning the business to enable new lending to recommence when funding capacity returns to the market at commercial terms.

Good progress has been made in all three areas during the year. The loan portfolio has continued to perform well, the business having been quick to react to the changing environment to ensure optimal performance of the book. Following a sharp, industry-wide increase in first mortgage arrears rates in the final quarter of 2008, arrears reduced over the second half of the financial year, the peak in impairments having arisen in the first half of the year. New sources of income have been created, including third party servicing, portfolio acquisition and ancillary business developments. The past six months have also seen significant improvements in wholesale funding markets, with funding spreads having tightened sufficiently to allow the reopening of the residential mortgage backed securities market, first by Lloyds Banking Group and then by Nationwide Building Society. Whilst these are early days in the recovery of the securitisation market, these developments are positive.

In view of the stable funding position for the existing portfolio, the associated strong operational cash flow and in line with the progressive dividend policy outlined last year, the Board has declared a final dividend of 2.2p per share (2008: 2.0p) which, when added to the interim dividend of 1.1p, gives a total dividend of 3.3p per share for the year (2008: 3.0p). Subject to approval at the Annual General Meeting on 11 February 2010, the dividend will be paid on 15 February 2010, by reference to a record date of 15 January 2010.

CAPITAL MANAGEMENT

Free cash flow, generated by the special purpose vehicles, has been strong during the year, leading to an increase in free cash balances to £84.0 million (30 September 2008: £73.2 million). These balances, together with net cash receipts going forward, will serve as core capital to support future lending initiatives.

Consistent with our aim to follow a progressive dividend policy, the Company has declared a final dividend for the year of 2.2p per share which, when added to the interim dividend, makes a total dividend of 3.3p per share. The Company will keep under review the appropriate level of capital for the business as the current economic cycle progresses and will maintain sufficient cash flow to enable the Group to meet its operational requirements and strategic development objectives.

We will be proposing at the forthcoming Annual General Meeting a special resolution seeking authority from shareholders for the Company to purchase up to 29.9 million of its own shares. It is customary for companies to seek such authority but we would not expect to utilise the authority unless, in the light of market conditions prevailing at the time, we consider that to do so would enhance earnings per share and would be in the best interests of shareholders generally. The Board has no current intention of using this authority.

BOARD CHANGES

On 25 February 2009 the Board was pleased to announce the appointment of Alan Fletcher as a non-executive director. Alan Fletcher has considerable experience in financial services, including pension fund trusteeship and investment fund management. He was Chairman of Neville James Holdings prior to its acquisition by Challenger International of Australia, following which he was Sales and Marketing Director of Challenger Group Services and a director of Challenger Life (UK) from 2002 to 2003. Since 2000 he has been non-executive Chairman of Hyperama plc and, since 2003, Chairman of Fresh Professional Development Limited, which specialises in delivering financial and business skills courses to the legal sector. In 2007 he was elected to the General Synod of the Church of England and in 2009 was elected to the Pensions Board of the Church of England.

In November 2008 we announced that, as a result of a restructuring of Board responsibilities, the role of Chief Operating Officer had been removed with the consequential loss of Pawan Pandya from the Company. Pawan was a loyal and committed member of the team and we thank him for his considerable contribution over his many years of service.

In February 2009 David Beever, a non executive director, retired from the Board. We thank David for his help and support over the years of his association with the Company.

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

The Group has significantly strengthened its position during the year and enters the new financial year well capitalised, with shareholders' funds of £650.8 million, the loan portfolio match funded to maturity, no debt maturing until 2017 and a strong cash position. We have remained profitable in a year when many of our competitors have failed, retaining a highly competent management team that has dealt effectively and successfully with the difficult economic and trading conditions encountered in recent years. Whilst recovery from the recession is likely to be slow, with UK unemployment likely to continue to rise and the possibility of further reversals occurring in the housing market, the Group has strong foundations to underpin future growth and we are ready to face with confidence the challenges in advancing the Group's prospects to add further value for shareholders.

ROBERT G DENCH
Chairman
24 November 2009

Chief Executive's review

Considerable progress has been made by the Group during the year ended 30 September 2009 in the face of highly adverse economic conditions. The portfolio has been strongly cash generative; arrears, having peaked during the year, have started to reduce; the loan redemption rate is low and therefore beneficial to the embedded value of the portfolio; and we have secured significant third party servicing work.

FINANCIAL REVIEW

CONSOLIDATED RESULTS

For the year ended 30 September 2009

	2009 £m	2008 £m
Interest receivable	**508.2**	820.9
Interest payable and similar charges	**(373.4)**	(680.5)
Net interest income	**134.8**	140.4
Share of result of associate	-	(0.5)
Other operating income	**16.0**	27.0
Total operating income	**150.8**	166.9
Underlying operating expenses	**(39.3)**	(37.8)
Provisions for losses	**(66.2)**	(62.2)
Underlying profit	**45.3**	66.9
Exceptional costs	-	(7.8)
Gains on debt repurchases	**18.4**	-
Impairment of goodwill	**(6.0)**	-
Fair value net (losses)	**(3.4)**	(5.4)
Operating profit being profit on ordinary activities before taxation	**54.3**	53.7
Tax charge on profit on ordinary activities	**(13.2)**	(16.6)
Profit on ordinary activities after taxation	**41.1**	37.1
Dividend – Rate per share for the year	**3.3p**	3.0p
Basic earnings per share	**13.9p**	17.9p
Diluted earnings per share	**13.7p**	17.9p

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.

The underlying operating profits of these business segments are detailed fully in appendix B to the annual report and are summarised below.

	2009 £m	2008 £m
Underlying operating profit		
First Mortgages	44.7	62.3
Consumer Finance	0.6	4.6
	45.3	66.9

Net interest income decreased by 4.0% to £134.8 million from £140.4 million in the previous year, reflecting the negative effects of the reduced size of the book, which was 7.3% lower from 30 September 2008 to 30 September 2009 and the lower level of interest earned on cash balances as LIBOR rates reduced significantly over the year, partially offset by the improvement in margins over the year. At 30 September 2009, 94.1% (2008: 93.7%) of the Group's loan assets were first mortgages.

Other operating income was £16.0 million for the year, compared with £27.0 million in 2008, the reduction reflecting the lower levels of commissions and fees associated with reduced lending activity.

Operating expenses during the year were 4.0% higher at £39.3 million (2008: £37.8 million). The increase has been caused by the consolidation of the full operating costs of The Business Mortgage Company Limited ("TBMC") since December, the recruitment of around 50 staff for the third party loan servicing business and further staff rationalisation. The cost:income ratio was 26.1% for the year, compared with 22.6% for the previous year (Appendix A) reflecting both the reduction in book size and the costs associated with servicing related income, where the cost:income ratio is higher than for lending activities.

Provisions for losses of £66.2 million include an exceptional charge of £0.3 million related to rationalisation of excess office space. The charge for impairment provisions of £65.9 million compares with £62.2 million for 2008, with the charge for the second half of the year, at £27.2 million, considerably lower than the first half charge of £38.7 million. For the Consumer Finance segment, the reduction in the second half charge for impairment was a principal factor in reversing a first half loss in these businesses. The loan books continue to be carefully managed and credit performance remains in line with our expectations.

Gains on debt repurchases were £18.4 million (2008: £nil) and these are reported on under Strategic Developments, below.

As a result of yield curve movements during the period, hedging instrument fair value net losses of £3.4 million (2008: £5.4 million losses), which do not affect cash flow, 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. Any ineffectiveness arising from differences between the fair value movements of hedging instruments and the fair value movements of the hedged assets or liabilities is expected to trend to zero over time.

Cash generation from the Group's vehicle companies has remained strong over the period, with free cash balances increasing to £84.0 million at 30 September 2009 from £73.2 million a year earlier.

During 2007 the Group acquired a 33% interest in the equity of TBMC, a mortgage broker, as part of a transaction in which the Company supported the purchase of TBMC by its management, providing facilities of £15.75 million. TBMC was treated as an associate in previous financial statements of the Group. The downturn in market activity during 2008, most notably after the collapse of Lehman Brothers, affected business volumes of TBMC and in order to secure the future of this strategically important business channel the Group agreed to restructure payments on its loan to TBMC, acquiring the remaining 67% interest in the equity of TBMC on 17 December 2008 for nil consideration.

In accordance with International Financial Reporting Standards we have completed the attribution of values to individual intangible assets and goodwill acquired, attributing £8.2 million to intangible assets. The remaining element, being £7.6 million, is goodwill and relates to the income stream expected from the range of small, independent brokers referring cases to TBMC in future years. Whilst we remain confident as to the long-term prospects for the buy-to-let sector, uncertainties exist over the pace of recovery in volumes for smaller, independent brokerages as the mortgage market recovers and lenders prefer to lend directly or to utilise larger network brokerages. We have therefore taken a conservative view of the likely revenue generation from that source and have written down the remaining goodwill on acquisition by £6.0 million to £1.6 million.

Corporation tax has been charged at an effective tax rate of 24.3%, compared to 30.9% last year, the reduction relating to adjustments for prior year items.

Profits after taxation of £41.1 million (2008: £37.1 million) have been transferred to shareholders' funds, which totalled £650.8 million at the year-end (2008: £621.5 million), representing 221p per share (2008: 209p per share) (appendix C).

BUSINESS REVIEW

NEW BUSINESS VOLUMES

Year ended 30 September 2009

	2009 £m	2008 £m	**2009 Number**	2008 Number
First Mortgages				
Buy-to-let	**25.2**	903.9	**487**	7,249
Other	-	-	-	-
	25.2	903.9	**487**	7,249
Consumer Finance				
Secured lending	**60.4**	185.0	**2,119**	7,510
Car Finance	-	8.4	-	461
Retail Finance	-	28.7	-	17,038
	60.4	222.1	**2,119**	25,009
	85.6	1,126.0	**2,606**	32,258

FIRST MORTGAGES

At 30 September 2009, the buy-to-let portfolio was £8,585.0 million, compared with £9,196.9 million a year earlier. New business origination by the Group's buy-to-let brands, Paragon Mortgages and Mortgage Trust, has been restricted since the end of February 2008 and is currently limited to further advances to existing borrowers where there is adequate equity in the property. Further advance lending is fully re-underwritten and, apart from generating additional income, has a strong retentive impact.

Aggregate completions were £25.2 million for the year ended 30 September 2009, compared with £903.9 million for the previous year.

The performance of the buy-to-let portfolio has remained superior to comparable industry data throughout the year, reflecting both the prudent credit approach adopted on origination of the mortgages and the management of the portfolios during the year. Arrears peaked in the spring and fell steadily throughout the second half of the financial year. At 30 September 2009, 1.54% of accounts were more than 3 months in arrears (2008: 0.53%) compared to 3.23% reported by the Council of Mortgage Lenders ("CML") for all buy-to-let lenders (2008: 1.71%) and 2.40% for all first mortgage loans covered by the CML data (2008: 1.44%).

Landlords have benefited considerably from the reduction in interest rates during the year, Paragon's variable mortgage rate charges at 30 September 2009 being less than one-third of the rate a year earlier, against which rents held up well. Tenant demand has remained strong as a result of uncertainty over the future course of house prices and the shortage of finance available for first time buyers. Whilst this has been balanced out in some areas as a result of an increase in supply delivered by reluctant landlords who have struggled to sell and builders bringing unsold properties into the private rented sector, the margin between rents and mortgage costs has improved considerably for most landlords. As a result, fewer landlords are falling into payment difficulties.

Where landlords fall into arrears, the management of these cases is materially different than for regular mortgages. In the early stages of the process a satisfactory accommodation with the landlord is sought, the objective being to return the mortgage to a normal performing profile as soon as possible whilst recognising the difficulties the landlord has experienced. Where a satisfactory arrangement cannot be reached, the property is usually placed with a receiver of rent under the Law of Property Act provisions. This is important not only to protect the value of the property and therefore to minimise the possibility of loss, but also to protect the position of the tenant. Paragon's range of in-house skills, including those of the team of surveyors, field managers and the credit and legal teams has left the Group uniquely well placed amongst buy-to-let lenders in managing this process. The result has been strong monthly cash flow from the portfolio of properties where a receiver is appointed, increasing to £1m by the close of the year, with 91% of the properties let that are currently available to let and an interest coverage ratio across the let portfolio of 169.8%.

The redemption rate of the buy-to-let book fell to 7.1% for the year (2008: 18.1%), with a significant reduction in the second half to an annualised rate of 2.8%. This low level of redemption activity, which is beneficial to the embedded value of the Group's loan book and to cash generation, is driven by a number of factors: landlords, experiencing good rental demand, are earning improved margins and perceive no motivation to sell when the housing market is weak; most Paragon borrowers are on LIBOR linked rates with margins of 1.5% to 2.0% which are highly competitive in the current lending climate; and the limited competitive product offerings available in the current environment for refinance are generally subject to restrictive criteria. The Group continues to offer fixed rate products for existing customers who prefer the certainty afforded by such arrangements.

The Group does not expect a material increase in competition in the buy-to-let market for some time and therefore redemption rates are expected to remain low for the foreseeable future. With demand for private rented property expected to remain high, an increase in unsatisfied mortgage demand, particularly from professional landlords, is anticipated going forward.

Owner-occupied book

The owner-occupied book reduced to £179.3 million from £221.8 million during the year ended 30 September 2009 and performed in line with the Group's expectations. 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 focused on other lending markets.

CONSUMER FINANCE

Total loan advances by the consumer finance businesses were £60.4 million during the year (all of which was secured personal finance), compared with £222.1 million in the previous year. As at 30 September 2009, the total loans outstanding on the Consumer Finance books were £550.0 million, compared with £634.5 million at 30 September 2008, the reduction arising principally from the withdrawal of products from the sales aid finance division in February 2008.

During the period the second charge market has been adversely affected by lack of funding. Many lenders have withdrawn from the market, which enabled the Group to focus lending on lower loan to value business until April 2009, when the funding available within the securitisation structures ended. Since then, a small amount of further advances activity to existing customers has remained.

Arrears on the secured loan book have increased over the year, with the number of accounts more than two months in arrears rising from 4.61% at 30 September 2008 to 7.94% at the year end, reflecting both the effects of economic conditions on borrower performance and the contraction in the size of the portfolio during the year. The arrears performance compares favourably with the industry data recorded by the Finance & Leasing Association ("FLA") of 19.8% (2008: 12.8%).

REGULATION

The FSA's recent Mortgage Market Review consultation paper was broadly in line with expectations. The extent to which the buy-to-let and second charge mortgage markets should become subject to regulation by the FSA will now be considered by HM Treasury, with further details expected shortly. Furthermore, the FSA's application of prudential supervision to the non-bank sector is likely to be the subject of consultation in due course.

We shall maintain an active dialogue with the FSA and HM Treasury as the process of consultation develops.

STRATEGIC DEVELOPMENTS

Last year we reported on the specific areas of strategic focus for the generation of new sources of income to enhance shareholder value, these being the acquisition of loan portfolios, the expansion of products and services for existing customers and servicing third party loan portfolios. Good progress has been made in these areas.

- In August 2009 we acquired a small portfolio of second charge loans. We continue to believe that there are a number of portfolios owned by banks and other financial institutions which will, over time, be sold and we will continue to pursue opportunities in this area.
- We have developed the range of services we offer to the private rented sector under our "Redbrick" brand. These have included the provision of: energy performance certificates; survey and valuation services; specialist insurance services for landlords; tenant credit checks and assessments for letting agents and landlords. We are currently exploring the opportunity to bring these services together into a coordinated strategy for the provision of property services to the wider lettings market.
- During the course of the year the Group entered into a number of third party loan servicing contracts and now has £1.07 billion of loans under management for third parties. Discussions regarding other third party initiatives continue at various stages of negotiation.

These activities have contributed modestly to the Group's operating profit for the year, but together they are expected to contribute in excess of £3.5 million in the next financial year.

In addition, we purchased £27.7 million nominal value of A-rated, AA-rated and AAA-rated securities from Paragon's securitisation programme at a cost of £13.6 million and £10 million nominal of the Company's subordinated bond at a cost of £5.3 million, creating an exceptional profit of £18.4 million after deducting related costs. In addition to the capital gain, these purchases will also reduce future interest expense. At current interest rates the net interest saving will amount to approximately £0.9 million during 2010, which will increase if interest rates rise. Further purchases will be considered in future, dependent on pricing and availability.

FUNDING

The Group continues to finance buy-to-let and secured consumer finance further advances through its current securitisation arrangements.

Significant progress has been seen in the securitisation markets in recent months, with credit spreads having tightened to a level where residential mortgage backed security issuance has once again become a reasonable source of term financing for a number of financial institutions. Whilst current new issuance costs appear expensive compared to the pricing levels prevailing prior to the credit crunch, when compared to current mortgage pricing they now provide a reasonable net margin for the lender. However, to date the issuing institutions have only funded seasoned loans, in effect to lengthen the maturity of their liabilities.

We are monitoring developments in the securitisation markets carefully as we look for appropriate market conditions to support new Paragon issuance.

CONCLUSION

In a year which has seen a deep UK recession and continuing turmoil in credit and banking markets, the Group has fared well, significantly strengthening its position at a time when many of its competitors have failed. The Group enters the new financial year well capitalised, with the loan portfolio match funded to maturity, no debt maturing until 2017 and a strong cash position.

We will continue to manage the book carefully to protect embedded value for shareholders, and to look for new business opportunities to supplement growth as we have during 2009. Whilst these are early days, recent improvements in funding markets will encourage us to look more confidently to reinstating the funding programme to support new lending going forward.

NIGEL S TERRINGTON
Chief Executive
24 November 2009

Board of Directors


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1. **Robert G Dench - Chairman - Age 59**

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 49**

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 has previously held the positions of Chairman of the Intermediary Mortgage Lenders Association and Chairman of the FLA Consumer Finance division. He is currently a member of the HM Treasury Housing Forum and has also been a member of the Executive Committee of the Council of Mortgage Lenders and a Board member of the Finance and Leasing Association.

3. **Nicholas Keen - Finance Director - Age 51**

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 50**

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. **Christopher D Newell - Non-Executive Director - Age 49**

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.

6. **Terence C Eccles - Non-Executive Director - Age 63**

Terry Eccles joined Paragon as a non-executive director on 1 February 2007. He is also a non-executive director of Bluebay Asset Management PLC. 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. He is the Senior Independent Director.

7. **Edward A Tilly - Non-Executive Director - Age 66**

Ted Tilly was appointed as a non-executive director on 1 April 2008. Mr Tilly was the senior independent director of Retail Decisions PLC from January 2000 until January 2007. He has held a number of directorships including Chairman of Barclays Life Assurance Company Ltd from 1999 to 2003. Prior to this, Mr Tilly was Chairman and Chief Executive of GE Capital's European insurance division. Mr Tilly was with the Legal & General Group for nearly thirty years where he held a number of senior positions including Director Life and Pensions and Director International.

8. **Alan K Fletcher - Non-Executive Director - Age 59**

Alan Fletcher was appointed as a non-executive director on 25 February 2009. Mr Fletcher has considerable experience in financial services, including pension fund trusteeship and investment fund management. He was Chairman of Neville James Holdings prior to its acquisition by Challenger International of Australia, following which he was Sales and Marketing Director of Challenger Group Services and a director of Challenger Life (UK) from 2002 to 2003. Since 2000 he has been non-executive Chairman of Hyperama plc and, since 2003, Chairman of Fresh Professional Development Limited, which specialises in delivering financial and business skills courses to the legal sector. In 2007 he was elected to the General Synod of the Church of England and in 2009 was elected to the Pensions Board of the Church of England.

Directors' report

The directors submit their Report and the Accounts for the year ended 30 September 2009 which were approved by the Board on 24 November 2009.

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 44. The directors recommend a final dividend of 2.2p per share (2008: 2.0p) which, taken with the interim dividend of 1.1p per share (2008: 1.0p per share) paid on 31 July 2009, would give a total dividend for the year of 3.3p per share (2008: 3.0p per share). Before dividends, retained profits of £41.1 million (2008: £37.1 million) have been transferred to reserves.

Business review

The Companies Act 2006 requires the Company to set out in this report a fair review of the business of the Group during the year ended 30 September 2009, including an analysis of the position of the Group at the year end and a description of the principal risks and uncertainties facing the Group (known as a 'Business Review').

The information that fulfils the Business Review requirements can be found in the following sections of the Annual Report. All of the information presented in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

- The sections of the Chairman's Statement headed 'Capital Management' and 'Outlook' on pages 5 and 6;
- The Chief Executive's Review on pages 7 to 11;
- The Corporate Social Responsibility Report on pages 19 to 22;
- The Corporate Governance Statement on pages 36 to 39; and
- The principal risks and uncertainties to which the Group is exposed on pages 40 and 41

Pages 14 to 18 inclusive, together with the sections of the Annual Report incorporated by reference, comprise a directors' report for the Group which has been drawn up and presented in accordance with, and in reliance upon, applicable English company law and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

Directors

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

	AT 30 SEPTEMBER 2009 ORDINARY SHARES	AT 30 SEPTEMBER 2008 OR ON APPOINTMENT ORDINARY SHARES
R G Dench	**117,000**	117,000
N S Terrington	**612,921**	598,553
N Keen	**342,412**	331,636
J A Heron	**234,256**	209,055
C D Newell*	**78,000**	78,000
T C Eccles*	**80,000**	-
E A Tilly*	-	-
A K Fletcher*	**100,000**	62,300

* 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 23 to 32.

There have been no changes in the directors' interests in the share capital of the Company since 30 September 2009.

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

Mr A K Fletcher was appointed to the Board on 25 February 2009. Mr P Pandya resigned from the Board on 12 November 2008 and Mr D M M Beever resigned from the Board on 5 February 2009.

The appointment and replacement of the Company's directors is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation and the individual service contracts and terms of appointment of the directors. The powers of the directors, and their service contracts and terms of appointment are described in the Corporate Governance section on pages 36 to 39.

In accordance with the Articles of Association Mr T C Eccles and Mr A K Fletcher will retire from the Board at the forthcoming Annual General Meeting, and, being eligible, will offer themselves for re appointment. Neither of these directors has a service contract with the Company requiring more than 12 months' notice of termination to be given.

From 1 October 2008, a director has had a statutory duty to avoid a situation in which he has, or can have, an interest that conflicts or possibly may conflict with the interests of the Company. A director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association by the other directors. The Articles of Association include the relevant authorisation for directors to approve such conflicts.

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.

Capital structure

Details of the issued share capital of the Company, together with details of movements in its issued share capital in the year, are given in note 43 to the accounts. The Company has one class of ordinary shares which carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a member's holding or on the transfer of shares. Both of these matters are governed by the general provisions of the Company's Articles of Association and prevailing legislation. The Articles of Association may be amended by special resolution of the shareholders. The directors are not aware of any agreements between holders of the Company's shares in respect of voting rights or which might result in restrictions on the transfer of securities.

Details of employee share schemes are set out in note 17 to the accounts. Votes attaching to shares held by employee benefit trusts are not exercised at general meetings of the Company.

The Company presently has the authority to issue ordinary shares up to a value of £9,760,000 and to make market purchases of up to 29,900,000 £1 ordinary shares, granted at the Annual General Meeting on 5 February 2009. These authorities expire at the conclusion of the forthcoming Annual General Meeting on 11 February 2010.

Purchase of own shares

At 30 September 2007 the Company had, as part of a £40.0 million repurchase programme, repurchased 6,689,000 10p ordinary shares having an aggregate nominal value of £668,900. The reasons for the repurchase programme were set out in an announcement made by the Company through RNS on 25 May 2005. On 29 January 2008 these shares were consolidated into 668,900 £1 ordinary shares. All of these shares were held as at 30 September 2009 and 30 September 2008 as treasury shares, representing 0.2% of the issued share capital excluding treasury shares, and this holding represents the maximum number of its own £1 ordinary shares held by the Company at any time during the past year. The maximum number of 10p ordinary shares held during the year ended 30 September 2008 before their consolidation was 6,689,000.

Substantial shareholdings

As at 31 October 2009, being a date not more than one month before the date of the notice convening the forthcoming Annual General Meeting, the Company had been notified of the following interests of more than 3% in the nominal value of the ordinary share capital of the Company:

	Ordinary shares	% held
Schroder Investment Management	31,158,779	10.44
Standard Life Investments	28,685,590	9.61
Dresdner Veer Palthe Voute NV	23,760,760	7.96
BlackRock Merrill Lynch Investment Management	22,946,148	7.69
M & G Investment Management	19,668,252	6.59
Legal & General Investment Management	18,302,030	6.13
JP Morgan Asset Management	15,177,657	5.08
Old Mutual Investment Management	12,292,596	4.12
Aviva Investors	10,094,287	3.38

Donations

Company law requires the disclosure of political donations and expenditure by any Group company. During the year ended 30 September 2009 no such payments were made (2008: £nil).

Contributions to charitable institutions in the United Kingdom amounted to £50,895 (2008: £62,202).

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 LLP as the auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Details of resolutions to be proposed as special business at the Annual General Meeting

Resolution 7 is proposed as an ordinary resolution. This means that for this resolution to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 8, 9, 10 and 11 are proposed as special resolutions. This means that for each of these resolutions to be passed, at least three quarters of the votes cast must be in favour of the resolution.

The Board of Directors considers that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole and unanimously recommends that shareholders vote in favour of them.

Resolution 7

Section 549 of the Companies Act 2006 states that the directors may not exercise a company's power to allot shares or grant rights to subscribe for or convert any security into shares unless given authority to do so by resolution of the shareholders in general meeting.

The present authority of the directors to allot the unissued ordinary share capital of the Company was granted at an Annual General Meeting on 5 February 2009 and will expire at the end of the forthcoming Annual General Meeting. Resolution 7 seeks to give the directors authority to allot shares or grant rights to subscribe for or convert any security into shares up to an aggregate nominal value of £99,400,000 representing approximately one third of the Company's issued share capital, excluding treasury shares, at 31 October 2009. At 31 October 2009 the Group held 668,900 treasury shares, representing 0.2% of the Company's issued capital, excluding treasury shares, at that date. The directors have no present intention of exercising this authority, which will expire at the conclusion of the following Annual General Meeting or, if earlier, on 10 May 2011.

Resolution 8

Under Section 561 of the Companies Act 2006, any shares allotted (or, in the case of any shares held in treasury, sold) wholly for cash must be offered to existing shareholders in proportion to their holdings, but this requirement may be modified by the authority of a special resolution of the shareholders in general meeting.

The authority given at the Annual General Meeting held on 5 February 2009 will expire at the end of the forthcoming Annual General Meeting and Resolution 8 seeks to renew it. The resolution authorises the directors to allot or sell shares for cash, other than to existing shareholders or holders of other equity securities in proportion to their holdings, up to an aggregate nominal value of £14,900,000, representing approximately 5% of the Company's issued share capital, excluding treasury shares, at 31 October 2009. In respect of this aggregate nominal amount, the directors confirm their intention to follow the provisions of the Pre-Emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling 3-year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders. This authority will expire at the conclusion of the following Annual General Meeting or, if earlier, on 10 May 2011.

Resolution 9

This resolution, which is being proposed as a Special Resolution, will enable the Company to purchase, in the market, up to a maximum of 29.9 million of the Company's ordinary shares (approximately 10% of the issued share capital, excluding treasury shares, at 31 October 2009) for cancellation, or to be held in treasury, at a minimum price of 10p per share and a maximum price of not more than 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately prior to purchase.

The directors would not expect to purchase ordinary shares in the market unless, in the light of market conditions prevailing at the time, they considered that to do so would enhance earnings per share and would be in the best interests of shareholders generally. Any purchases made by the Company will be announced no later than 7.30 a.m. on the business day following the transaction.

Resolution 10

Changes made to the Companies Act 2006 by the Companies (Shareholders' Rights) Regulations 2009 (the 'Shareholders' Rights Regulations') increase the notice period required for general meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. (Annual General Meetings will continue to be held on at least 21 clear days' notice.)

Before the coming into force of the Shareholders' Rights Regulations on 3 August 2009, the Company was able to call general meetings other than an Annual General Meeting on 14 clear days' notice without obtaining such shareholder approval. In order to preserve this ability, Resolution 10 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed.

Resolution 11

It is proposed in Resolution 11 to adopt new Articles of Association (the 'New Articles') in order to update the Company's current Articles of Association (the 'Current Articles') primarily to take account of the changes in English company law brought about by the implementation of the Shareholders' Rights Regulations in the United Kingdom in August 2009 and the remaining provisions of the Companies Act 2006 in October 2009. If adopted the changes will become effective at the conclusion of the Annual General Meeting.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 or the Shareholders' Rights Regulations have not been noted below. The New Articles showing all the changes to the Current Articles are available for inspection, as noted on page 120 of this document.

The principal changes involve:

- *Articles which duplicate statutory provisions*
  Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution.

- *Suspension of registration of share transfers*
  The Current Articles permit the directors to suspend the registration of transfers. Under the Companies Act 2006 share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

- *Use of seals*
  The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the directors may approve.

- *Voting by proxies on a show of hands*
  The Shareholders' Rights Regulations have amended the Companies Act 2006 so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles remove provisions in the Current Articles dealing with proxy voting on the basis that these are dealt with in the Companies Act 2006 and contain a provision clarifying how the provision of the Companies Act 2006 giving a proxy a second vote on a show of hands should apply to discretionary authorities.

- *Voting by corporate representatives*

  The Shareholders' Rights Regulations have amended the Companies Act 2006 in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and a poll. The New Articles remove provisions in the Current Articles dealing with voting by corporate representatives on the basis that these are dealt with in the Companies Act 2006.

- *Chairman's casting vote*

  The New Articles remove the provision giving the chairman a casting vote in the event of an equality of votes as this is no longer permitted under the Companies Act 2006.

- *Adjournments for lack of quorum*

  Under the Companies Act 2006 as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The Current Articles have been changed to reflect this requirement.

- *Directors' indemnity*

  The Current Articles allow the Company to indemnify and/or provide insurance for directors against liabilities incurred by them. The New Articles clarify that the Company may also indemnify and/or provide insurance for former directors against liabilities incurred by them.

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

JOHN G GEMMELL
Company Secretary
24 November 2009

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, with all employees receiving a review at least annually.

The corporate training and development strategy focuses on providing opportunities to develop all staff and is central to the achievement of the Group's business objectives. On average employees received 8.1 days training in the year (2008: 6.8 days).

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.

When responding to changes in its business, the Group seeks to minimise the requirement for compulsory redundancy, retraining and redeploying staff wherever possible.

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.

Information on the composition of the workforce at the year end is summarised below:

	2009	2008
Female employees	59.5%	62.5%
Female management grade employees	40.7%	38.3%
Ethnic minority employees	8.7%	8.7%
Ethnic minority management grade employees	1.9%	2.0%

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, managers, teams and individual employees.

Environmental policy

The Group is engaged in mortgage and consumer finance and therefore its overall environmental impact is considered to be low. The main environmental impacts for the Group are limited to universal environmental issues such as resource use, procurement in offices and staff and business travel.

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
- encourages staff to conserve energy
- 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 that redundant IT equipment is disposed of within current directives/regulations (WEEE - Waste Electrical and Electronic Equipment), recycling 98% of such equipment
- ensures that all fluorescent light tubes are disposed of in a safe manner, compliant with appropriate regulations

The Green Charter is kept under continuous review by the Facilities team.

All of the Group's paper based stationary is procured from FSC certified suppliers.

The Group has been involved in no prosecutions, accidents or similar non-compliances in respect of environmental matters.

The environmental key performance indicators for the Group, determined in accordance with the Reporting Guidelines published by the Department for Environment Food and Rural Affairs (DEFRA) in 2006 are set out below.

Direct inputs (operational)

Greenhouse gases	Definition	Absolute tonnes CO_2		Normalised tonnes CO_2 per £m income	
		2009	2008	**2009**	2008
Gas	Emissions from utility boilers	**375**	483	**2.5**	2.9
Vehicle fuel	Petrol and diesel used by staff and company cars	**285**	304	**1.9**	1.8

Waste	Definition	Absolute tonnes		Normalised tonnes per £m income	
		2009	2008	**2009**	2008
Landfill	General office waste, which includes a mixture of paper, card, wood, plastics and metal	**101**	159	**0.7**	1.0
Recycled	General office waste recycled, primarily paper and cardboard	**82**	55	**0.5**	0.3

Indirect inputs (supply chain)

Greenhouse gases	Definition	Absolute tonnes CO_2		Normalised tonnes CO_2 per £m income	
		2009	2008	**2009**	2008
Energy use	Directly purchased electricity, which generates greenhouse gas emissions	**1,255**	1,866	**8.3**	11.2

Water	Definition	Absolute cubic metres		Normalised cubic metres per £m income	
		2009	2008	**2009**	2008
Supplied water	Consumption of piped water. No water is extracted directly by the Group	**6,374**	6,583	**42.3**	39.4

Gas, electricity and water usage is based on consumption recorded on purchase invoices. Vehicle fuel usage is based on expense claims and recorded mileage and waste generation is based on volumes reported on disposal invoices.

CO_2 values above are calculated based on the DEFRA guidelines published in September 2009 (2008: June 2008). Normalised data is based on total operating income of £150.8m (2008: £166.9m).

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 Services Division 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.

A six monthly health and safety report is produced by Head of Group Services for the Senior Management Group. Consultants are employed to present annually at the Senior Management Group meeting to discuss any health and safety issues or concerns and to summarise the Groups current status.

Charitable contributions

The Group contributes to registered charities relating to financial services or serving the local communities in which it operates. Included in the charitable contributions shown in the Directors' Report are contributions of £36,792 (2008: £49,806) 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: Youth Speaks, Light Hall School, Transplant Active, Pathway Project, Downs Syndrome Swimming, Second Chance, Samantha Dickson Brain Tumour Trust, Happy Days, Stroke Association, Mencap, Action for Sick Children, British Blind Sport, Children's Cancer Care, Disability Challenge, Brainwaive, Make a Wish Foundation, The Jennifer Trust, Reality Adventure Works in Scotland, Shirley Lions Club, Lupus and Playbox.

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 £10,000 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

During the year, the Committee consisted of Terence Eccles (who chaired the Committee until 5 February 2009), Edward Tilly (who chaired the Committee from 5 February 2009), Christopher Newell (from 25 February 2009), Alan Fletcher (following his appointment to the Board on 25 February 2009), David Beever (until his retirement from the Board on 5 February 2009) and the Chairman of the Company, Robert Dench. At the year end the members of the Committee were Edward Tilly, Terence Eccles, Christopher Newell, Alan Fletcher (all of whom are independent non-executive directors) and Robert Dench.

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 N S Terrington (Chief Executive) about its proposals. The Committee also retains Hewitt New Bridge Street as its advisor on remuneration matters. This firm also advised the Company on various sundry remuneration matters during the year, which did not conflict with its advice to the Committee.

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 are assessed after a review of their individual performances and an assessment of comparable positions in the financial sector and within a group of pan-sectoral comparators comprising a number of companies with market capitalisations similar to the Group's discounted net present value, there now being few financial service businesses in the UK of similar size to the Group.

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' below). 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.

As a result of the continuing difficulties in the financial markets and the Board's rejection of an offer for the Company in 2008, the Committee has kept the Company's remuneration policy under review. The Committee, having consulted major shareholders during the year, believes that the current policy is sufficient for the present needs of the Company, acknowledging that its application will take into account the environment in which the Company operates. The Committee will continue to keep the position under review during the coming year.

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 in the past has relied 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. The Committee has agreed that in view of the prevailing economic climate and the consequent need for salary restraint, the Chairman's fees and executive directors' remuneration will be frozen at 2008/09 levels for 2009/10.

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. Plan participants contribute 5% of eligible salary to 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 having been 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 pages 28 and 29. 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

During the year, the executive directors participated in an annual bonus scheme under which awards were 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 was also given to individual executive performance. Corporate and individual performance are the key determinants of any bonus paid – share price performance is not intended to have an impact other than in exceptional circumstances. Bonuses are normally paid in November but are accrued in the year to which they relate.

During the year, the total target bonus for executive directors was 100% of salary, total stretch bonus was 150% of salary and the bonus payable under the bonus scheme was capped at 200% of salary (this could only be achieved for exceptional performance). This structure will remain unchanged for the current year.

In determining bonus levels the Committee has considered the performance of the executive directors and of the Company in relation to the adverse economic and market conditions prevailing during the year. The directors have achieved their target bonus objectives in terms of the effective and efficient management of the extant book, optimising value, maximising cash flow and delivering on the new strategies to enhance shareholder value, in particular the development of third party servicing and purchase of group debt. In view of the results achieved the Committee has determined that each executive director should be paid the target bonus equal to 100% of his salary in respect of the year ended 30 September 2009. Bonus amounts in excess of £50,000 are subject to compulsory 25% deferral, payable in shares after three years.

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

For the current year, bonus objectives will continue to be focused on protecting, maintaining and enhancing shareholder value. Specific objectives will be set concerning the managing of the extant book of business, covering such aspects as managing retention, arrears, cash flow and overall cost efficiency. Other objectives will concern the development and delivery of new strategies to enhance existing income streams and also the need to ensure the Group takes advantage of opportunities to return to new lending when conditions allow. Performance against these objectives will be reported in next year's report.

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 and the Board will not seek its renewal when it expires in 2010.

Directors will remain eligible for awards under the Performance Share Plan ('PSP') and able to participate in the Matching Share Plan ('MSP') by investing up to 25% of their salary in the Company's shares.

The Committee reviewed the appropriateness of the performance criteria it had applied to awards in the past and concluded that the traditional measures of EPS growth and relative Total Shareholder Return ('TSR') would not be appropriate for the current situation. After consultation with major shareholders the Committee determined that the most appropriate target is the TSR of a comparator group of companies comprising the constituents of the FTSE 250 and this was the basis of the condition applied to the latest grant under the PSP on 21 May 2009. The FTSE 250 was chosen as it is a broad-based index in which FTSE classifies the Company's shares and because of the lack of comparable listed financial services organisations at the current time. The performance conditions will be reviewed prior to each future grant to ensure that they remain the most suitable in the Company's prevailing circumstances.

The executive directors are entitled to receive options under the Paragon UK Sharesave Plan 2009, 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 were subject to performance conditions based on comparing the TSR generated in respect of the Company with the TSR for a group of similar companies

For PSP awards made after 30 September 2005 but prior to 29 September 2008 to Executive Directors, 50% of the awards 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 (until its delisting on 10 October 2008), Barclays, Bradford & Bingley (until its nationalisation on 29 September 2008), Cattles, Egg (until its delisting on 20 February 2006), HBOS (until its delisting on 19 January 2009), Hitachi Capital (until its delisting on 9 August 2007), HSBC, Kensington Group (until its delisting on 8 August 2007), Lloyds Banking Group, London Scottish Bank (until its delisting on 4 December 2008), Northern Rock (until its nationalisation on 22 February 2008), Provident Financial and 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 were selected as the performance measures for these awards since they provided a balance of internal and external measures to incentivise and reward executives more effectively, whilst also aligning the interests of executives with those of shareholders. The Company's TSR performance and the TSR and EPS performance of the peer companies will be independently calculated by Hewitt New Bridge Street before being reviewed and confirmed by the Remuneration Committee.

PSP awards granted on 29 September 2008 are subject to an absolute TSR performance condition, whereby the Company's share price (plus the benefit of any reinvested dividends) at the end of the performance period must be at least equal to 125p plus compound annual growth of 10%. (The share price at the time awards were granted was 66.5p). 35% of the awards will vest at this level, increasing on a straight line basis to full vesting for compound annual growth of 15%. The performance period is the three year period commencing on the date of grant.

PSP awards granted on or after 21 May 2009 are subject to a performance condition comparing the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 on the date of grant over the three years commencing on the date of grant. 25% of awards will vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance.

Prior to any awards vesting, the Remuneration Committee must be satisfied that the requirements of a financial underpin test have been met.

Awards under the PSP are made from time to time at the discretion of the Committee and during the year the executive directors were granted awards over shares equal to 150% of salary.

Paragon Matching Share Plan ('MSP')

Under the terms of the MSP, executive directors and senior management may be 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.

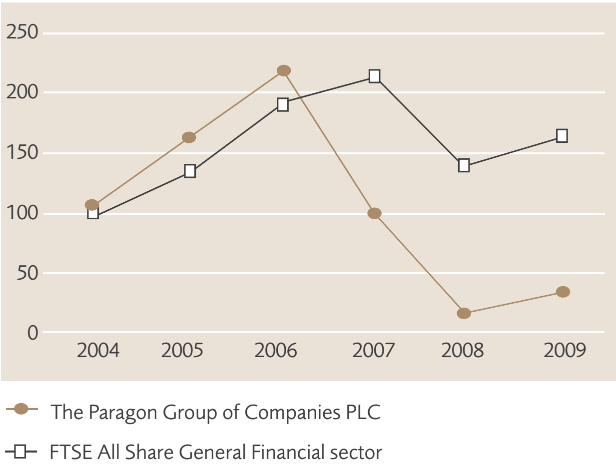
Executive directors will be invited to invest the after-tax equivalent of up to 25% of salary; at such a level, their award is over 'free' performance-linked matching shares worth 50% of salary.

The MSP 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 TSR performance compared with the performance of the FTSE All Share Financial Services 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 2009



This graph shows the value, by 30 September 2009, of £100 invested in The Paragon Group of Companies PLC on 30 September 2004, 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)

In the event of early termination, the directors' contracts provide for the payment of one year's fees / salary, benefits, pension and bonus in lieu of notice. No provision exists for additional compensation in the event of termination due to a change of control of the Company.

Neither director seeking re-election at the Annual General Meeting 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. During the year all non executive directors were paid an annual base fee of £31,500 plus £2,100 for membership of each committee, £10,500 for Remuneration Committee and Audit and Compliance Committee chairmanship and £6,300 for acting as the Senior Independent Director.

Current terms of engagement apply for the following periods:

C D Newell	-	1 November 2007 to 1 November 2010
T C Eccles	-	1 February 2007 to 1 February 2010
E A Tilly	-	1 April 2008 to 1 April 2011
A K Fletcher	-	25 February 2009 to 25 February 2012

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.

Edward Tilly, 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	**2009 Total £000**	2008 Total £000
Chairman						
R G Dench	184	25	-	-	**209**	229
Executive						
N S Terrington	404	4	308	-	**716**	584
N Keen	307	4	234	-	**545**	438
J A Heron	212	18	170	-	**400**	322
P Pandya	29	-	-	407	**436**	290
Non-executive						
C D Newell	45	-	-	-	**45**	42
E A Tilly	43	-	-	-	**43**	18
T C Eccles	44	-	-	-	**44**	42
A K Fletcher	23	-	-	-	**23**	-
D M M Beever	15	-	-	10	**25**	42
2009	**1,306**	**51**	**712**	**417**	**2,486**	2,007
2008	1,413	77	517	-	2,007	

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

The payment made to Pawan Pandya as compensation for his loss of office was made in accordance with the terms of his contract of employment and principally comprised the payment of one year's salary, payment in lieu of pension contributions, a bonus equivalent to 50% of salary, holiday pay and benefits.

The payment made to David Beever for compensation for loss of office was made in accordance with the terms of his engagement and comprises the payment of eleven weeks' fees.

Directors' pensions

The total amount charged to the profit and loss account of the Group in respect of pension provision for directors was £381,000 (2008: £418,000).

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 LR 9.8.8(12) of the Listing Rules.

	Increase / (decrease) in accrued pension during the year excluding any increase for inflation £000	Transfer value of increase / (decrease) less directors' contributions £000	**Accumulated total accrued pension at 30 September 2009 £000**	Accumulated total accrued pension at 30 September 2008 £000
N S Terrington	-	2	**151**	144
N Keen	5	76	**80**	72
J A Heron	-	-	**85**	81
P Pandya	(3)	(39)	**57**	57

The pension entitlement shown is that which would be paid annually on retirement based on service to 30 September 2009 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 figures for Mr Pandya are negative as he has not accrued benefits within the plan over the year and did not receive a salary increase from 2008 to 2009. Mr Pandya resigned from the Board of Directors and left the Group in November 2008. This has led to the negative real increase.

The transfer value has been calculated in accordance with the Occupational Pensions Schemes (Transfer Values) Regulations 1996 and the Occupational Pensions Schemes (Transfer Values) (Amendment) Regulations 2008, in force from 1 October 2008.

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 section 421 of the Companies Act 2006.

	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 2008 £000	**Transfer value of accrued benefits at 30 September 2009 £000**	Difference in transfer values less contributions £000
N S Terrington	49	-	7	151	2,008	**2,428**	420
N Keen	51	6	9	80	1,053	**1,340**	281
J A Heron	50	-	4	85	1,175	**1,415**	240
P Pandya	44	-	-	57	657	**770**	113

The pension entitlement shown is that which would be paid annually on retirement based on service to 30 September 2009 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 increases in transfer values (as shown in the final column) reflect the change in assumptions underlying the transfer value basis as at 30 September 2009 and 30 September 2008. As well as a change in financial conditions, the 30 September 2009 basis allows for a change in the underlying yields used to derive the discount rate, which have been updated to reflect and better match the duration of the underlying liabilities.

The transfer value at 30 September 2009 has been calculated on the basis of the Occupational Pensions Schemes (Transfer Values) (Amendment) Regulations 2008, in force from 1 October 2008. Under the amended regulations, the trustees are responsible for the assumptions and calculation of transfer values, having taken advice from the scheme actuary.

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 £130,000 (2008: £124,000) for Mr N S Terrington, £124,000 (2008: £127,000) for Mr N Keen, £65,000 (2008: £62,000) for Mr J A Heron and £7,000 (2008: £49,000) 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 £12,000 (2008: £103,000). At 30 September 2009 the share price of The Paragon Group of Companies PLC was 150.8p per share (2008: 65.0p per share) and the range during the year then ended was 31.0p to 159.0p for £1 ordinary shares (2008: 61.50p to 310.25p for 10p ordinary shares and 49.75p to 148.50p for £1 ordinary shares).

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 2008 and 30 September 2009 are:

Date from which exercisable	Expiry date	Market price at award date	N S Terrington Number	N Keen Number	J A Heron Number	P Pandya Number
Awards outstanding at 30 September 2008:						
07/03/2009†	07/09/2009	684.00p *	22,408	16,798	9,479	9,479
25/05/2009†	25/11/2009	643.00p *	12,140	9,100	5,135	5,135
25/09/2009†	25/03/2010	659.50p *	11,476	8,603	4,855	4,855
09/01/2010†	09/07/2010	665.00p *	11,611	8,699	5,545	4,991
28/03/2010†	28/06/2010	576.50p *	13,073	9,795	6,244	5,619
14/06/2010†	14/12/2010	543.00p *	16,964	12,712	7,238	6,515
26/09/2010†	26/03/2011	296.50p *	36,038	27,009	12,673	11,406
26/11/2010†	26/05/2011	130.50p *	50,050	37,504	26,693	24,024
29/09/2011‡	29/03/2012	66.50p #	844,051	632,475	450,160	405,144
			1,017,811	762,695	528,022	477,168
Awards made in the year:						
Granted on 21 May 2009						
21/05/2012§	21/11/2012	70.00p #	844,286	632,143	450,000	
Awards exercised in the year:			-	-	-	
Awards lapsing in the year						
07/03/2009†	07/09/2009	684.00p *	(22,408)	(16,798)	(9,479)	
25/05/2009†	25/11/2009	643.00p *	(12,140)	(9,100)	(5,135)	
25/09/2009†	25/03/2010	659.50p *	(11,476)	(8,603)	(4,855)	
At 30 September 2009 or end of appointment			**1,816,073**	**1,360,337**	**958,553**	**477,168**

* price per 10p ordinary share

\# price per £1 ordinary share

† 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.

‡ These awards are subject to an absolute TSR performance condition, whereby the increase in the net return index over the performance period, based on a share price that is equivalent to 125 pence per share, must at least equal compound annual growth of 10%. 35% of the awards will vest for 10% compound annual growth over the performance period, increasing on a straight line basis to full vesting for compound annual growth of 15%. The performance period is the three year period commencing on the date of grant.

§ These awards will be subject to a performance condition comparing the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 on the date of grant over the three years commencing on the date of grant. 25% of the awards will vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance.

None of the awards vesting during the year met the performance conditions for vesting and therefore all such awards lapsed.

Share option schemes

Details of individual options held by the directors at 30 September 2008 and 30 September 2009 are:

Date from which exercisable	Expiry date	Option price	N S Terrington Number	N Keen Number	J A Heron Number	P Pandya Number
Options held at 30 September 2008:						
11/01/2002	11/01/2009	235.13p	188,190	-	-	-
17/02/2003	17/02/2010	234.33p	62,730	-	-	-
27/11/2004	27/11/2011	395.34p	188,190	-	-	-
29/07/2005	29/07/2012	297.30p	37,638	37,638	50,184	-
14/03/2006	14/03/2013	297.30p	119,848	87,161	41,269	-
08/12/2006†	08/12/2013	540.40p	61,527	46,261	25,906	-
01/12/2007†	01/12/2014	555.34p	68,874	51,656	27,730	27,730
			726,997	222,716	145,089	27,730
Options granted in the year:			-	-	-	-
Options lapsing in the year:						
11/01/2002	11/01/2009	235.13p	(188,190)	-	-	
At 30 September 2009 or end of appointment			**538,807**	**222,716**	**145,089**	**27,730**

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

Deferred bonus shares

Details of individual entitlements of the directors to Deferred Bonus Shares at 30 September 2008 and 30 September 2009 are:

Award date	Transfer date	Market price at award date	N S Terrington Number	N Keen Number	J A Heron Number	P Pandya Number
Awards outstanding at 30 September 2008:						
13/03/2006	01/10/2008	683.00p*	14,368	10,776	5,907	5,907
15/01/2007	01/10/2009	631.00p*	11,340	8,501	5,996	5,197
			25,708	19,277	11,903	11,104
Awards made in the year:			-	-	-	-
Shares transferred in the year:						
13/03/2006	01/10/2008	683.00p*	(14,368)	(10,776)	(5,907)	
At 30 September 2009 or end of appointment			**11,340**	**8,501**	**5,996**	**11,104**

* price per 10p ordinary share

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

The share price at the exercise date of 27 November 2008 was 40.25p. 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 N S Terrington - £5,870, Mr N Keen - £4,402, Mr J A Heron - £2,413 and Mr P Pandya - £2,413.

Rights to the following shares are due to be granted in respect of the compulsory deferral of 25% of performance bonuses in excess of £50,000 for the year ended 30 September 2009. The shares will be transferable to the recipients on 1 October 2012, subject to the recipient being employed by the Company at that time:

N S Terrington	60,098
N Keen	42,802
J A Heron	27,952

Matching Share Plan

The individual interests of the directors in the Matching Share Plan at 30 September 2008 and 30 September 2009 are:

Award date	Market price at award date	N S Terrington	N Keen	J A Heron	P Pandya
		Number	Number	Number	Number
Awards outstanding at 30 September 2008:					
22/03/2006	761.50p*	20,128	15,088	10,643	10,643
09/01/2007	665.00p*	15,755	11,805	9,406	8,465
		35,883	26,893	20,049	19,108
Awards made in the year:		-	-	-	-
Awards lapsing in the year:					
22/03/2006	761.50p*	(20,128)	(15,088)	(10,643)	
At 30 September 2009 or end of appointment		**15,755**	**11,805**	**9,406**	**19,108**

* price per 10p ordinary share

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.

The awards vesting during the year failed to meet the performance conditions for vesting and therefore lapsed.

Signed on behalf of the Board of Directors

JOHN G GEMMELL
Company Secretary
24 November 2009

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. In respect of the financial statements for the year ended 30 September 2009 company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 2006 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 applicable requirements of the Companies Act 2006.

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.

The directors confirm that, to the best of their knowledge;

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the Group taken as a whole; and
- the business review, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Group taken as a whole, together with a description of the principal risks and uncertainties it faces.

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

JOHN G GEMMELL
Company Secretary
24 November 2009

Independent auditors' report

To the members of The Paragon Group of Companies PLC

We have audited the financial statements of The Paragon Group of Companies PLC for the year ended 30 September 2009 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and company statements of recognised income and expenditure, the consolidated and company reconciliations of movements in equity and the related notes 1 to 66. The financial reporting framework which has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company financial statements, the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' Responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion

In our opinion;

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS

As explained in Note 3 to the group financial statements, the Group, in addition to complying with its legal obligation to apply IFRSs as adopted for use in the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 39, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

MATTHEW PERKINS (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Birmingham
United Kingdom

24 November 2009

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 June 2008. Throughout the year ended 30 September 2009 the Company complied with the provisions of the Code.

Directors

At the beginning of the year the Board of Directors comprised the Chairman, four executive and four non-executive directors. During the year Pawan Pandya (an executive director) and David Beever (an independent non-executive director) resigned and Alan Fletcher was appointed as an independent non-executive director.

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 Terence Eccles, 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 financial and dividend policies.

The Chairman's other business commitments are set out in the biographical details on page 12 and there have been no significant changes during the period to those commitments.

Normally, there are nine regular Board meetings a year with other meetings being held as required. Robert Dench, Nigel Terrington, Nicholas Keen, John Heron and Christopher Newell attended all of the nine regular Board meetings during the year ended 30 September 2009, Terence Eccles and Edward Tilly attended eight meetings, David Beever attended two out of the three meetings held prior to the date of his retirement from the Board, Pawan Pandya attended the one meeting held prior to his resignation and Alan Fletcher attended five out of the six meetings held following his appointment to 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.

Prior to 1 October 2008 the Board approved a set of guiding principles on managing conflicts and agreed a process to identify and authorise any conflicts which might arise. At each meeting of the Board actual or potential conflicts of interest in respect of any director are reviewed.

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 and have access to such continuing professional development opportunities as are identified as appropriate in the Board appraisal process.

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

- The Remuneration Committee, which during the year consisted of Edward Tilly (who chaired the Committee from 5 February 2009), Terence Eccles (who chaired the Committee until 5 February 2009), Christopher Newell (from 25 February 2009), Alan Fletcher (following his appointment to the Board on 25 February 2009), David Beever (until his retirement from the Board on 5 February 2009), and the Chairman of the Company, Robert Dench. At the year end the members of the Remuneration Committee were Edward Tilly, Terence Eccles, Christopher Newell, Alan Fletcher (all of whom are independent non-executive directors) and Robert Dench.

  During the year ended 30 September 2009 there were five meetings of the Remuneration Committee. All meetings were attended by Edward Tilly, Terence Eccles and Robert Dench, all four meetings held following his appointment to the Committee were attended by Christopher Newell, two of the four meetings held following his appointment to the Committee were attended by Alan Fletcher and the one meeting held prior to his retirement from the Board was attended by David Beever.

  Further information about the Remuneration Committee is given in the Report of the Board to the Shareholders on Directors' Remuneration on pages 23 to 32.

- The Audit and Compliance Committee, which during the year consisted of Christopher Newell, who chaired the Committee, Terence Eccles, Edward Tilly, Alan Fletcher (following his appointment to the Board on 25 February 2009) and David Beever (until his retirement from the Board on 5 February 2009). 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. In recommending the re-appointment of the external auditors to the Board, the Committee have considered their performance and the requirements of the Group's financial control process and have concluded that the needs of the Group would not be best served by putting the external audit out to tender at this time. The Committee has not identified any factors which might restrict its choice of external auditor.

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, the 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 2009 there were three meetings of the Audit and Compliance Committee, all of which were attended by Christopher Newell and Terence Eccles, two of which were attended by Edward Tilly and by Alan Fletcher following his appointment to the Committee and one of which was attended by David Beever.

- The Nomination Committee, consisting of Robert Dench, who chairs the Committee, Nigel Terrington and three non-executive directors, Christopher Newell, Edward Tilly and Alan Fletcher (following his appointment to the Committee on 25 February 2009), ensuring that a majority of the Committee's members are independent non-executive directors. David Beever was also a member of the Committee until his retirement from the Board on 5 February 2009. The Committee is convened as required to nominate candidates for membership of the Board, although ultimate responsibility for appointment rests with the Board. There was one meeting of the Nomination Committee during the year ended 30 September 2009, which was attended by Robert Dench, Nigel Terrington, Edward Tilly and Christopher Newell to consider the appointment of a new independent non-executive director. 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.

  In recruiting the non-executive director appointed during the year the Committee did not consider it necessary to utilise the services of an external search consultancy or to openly advertise the vacancy for a non-executive director because a suitable candidate had been identified from other sources.
- 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 liquidity risks, 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 23 to 32.

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 18 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 33.

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 2009, 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

The business activities of the Group, its current operations and those factors likely to affect its future results and development, together with a description of its financial position and funding position, are described in the Chairman's Statement on pages 5 to 6 and Chief Executive's review on pages 7 to 11. The principal risks and uncertainties affecting the Group, and the steps taken to mitigate against these risks are described on pages 40 to 41.

Note 5 to the accounts includes an analysis of the Group's working capital position and policies, while note 6 includes a detailed description of its funding structures, its use of financial instruments, its financial risk management objectives and policies and its exposure to credit, interest rate and liquidity risk. Critical accounting estimates affecting the results and financial position disclosed in this annual report are discussed in note 4.

As described under 'Accountability and Audit' above, the Group has a formalised process of budgeting, reporting and review, which provides information to the directors which is used to ensure the adequacy of resources available for the Group to meet its business objectives.

Substantially all of the Group's remaining loan portfolios are funded through securitisation structures and are thus match-funded to maturity. None of the Group's debt matures before 2017, when the £110 million corporate bond is repayable. As a consequence the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results. The Group's system of risk management, which includes risk review and an active internal audit function, is monitored by the Audit and Compliance Committee as described in the 'Corporate Governance' section of this Annual Report on pages 36 to 39.

The principal risks to which the Group is exposed include the following:

Economic environment

Further deterioration in the general economy may adversely affect all aspects of the Group's business. Adverse economic conditions might increase the number of borrowers that default on their loans, which may increase the Group's costs and could result in losses on some of the Group's assets.

The general economic factors affecting the Group in the period going forward, together with the steps taken by the Group's management to address these issues are described in more detail in the Chairman's statement on pages 5 to 6 and the Chief Executive's review on pages 7 to 11.

Changes in interest rates may adversely affect the Group's net income and profitability. The steps taken by the Group to mitigate against the long term effects of interest rate movements, through the structuring of its products and the use of hedging procedures are described in note 6 to the accounts.

Credit risk

As a primary lender the Group faces credit risk as an inherent component of its lending activities. Adverse changes in the credit quality of the Group's borrowers, a general deterioration in UK economic conditions or adverse changes arising from systematic risks in financial systems could reduce the recoverability and value of the Group's assets.

The Group's approach to the management of credit risk and the systems in place to mitigate that risk are described in the section of note 6 to the accounts entitled 'Credit Risk'.

Operational risk

The activities of the Group subject it to operational risks relating to its ability to implement and maintain effective systems to process the high volume of transactions with customers. A significant breakdown of the IT systems of the Group might adversely impact the ability of the Group to operate its business effectively.

To address these risks, the Group's internal audit function carries out targeted reviews of critical systems to ensure that they remain adequate for their purpose. The Group has a Business Continuity plan, which is kept under regular review and is designed to ensure that any breakdown in systems would not cause significant disruption to the business.

Competitor risk

The Group faces strong competition in all of the core markets in which it operates. There is a danger that its profitability and /or market share may be impaired.

To mitigate this risk the Group maintains relationships with its customers, business introducers and other significant participants in the markets in which it is active, as well as being active in industry-wide organisations and initiatives. This enables market trends to be identified and addressed within the relevant business strategy.

Governmental, legislative and regulatory risk

The market sectors to which the Group supplies products, and the capital markets from which it has historically obtained much of its funding have been subject to intervention by Government and other regulatory bodies. To the extent that such actions disadvantage the Group, when compared to other market participants, they present a risk to the Group.

In order to mitigate this risk the Group has been active in explaining its position to the authorities in order that it is not inadvertently disadvantaged.

Management

The success of the Group is dependent on recruiting and retaining skilled senior management and personnel.

The Group's employment policies, which are designed to ensure that an appropriately skilled workforce is, and remains, in place are described within the Corporate Social Responsibility section of this Annual Report on page 19.

Working capital

The Group's capital position and its policies in respect of capital management are described in note 5 to the accounts. These policies and their application are described more fully in the section of the Chairman's Statement headed 'Capital Management' on page 5.

Financial risk

The Group's exposure to other financial risks, including liquidity risk and foreign currency risk, and the procedures in place to mitigate those risks are described in detail in note 6 to the accounts.

Contacts

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CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2009

	Notes	2009 £m	2009 £m	2008 £m	2008 £m
Interest receivable	10		508.2		820.9
Interest payable and similar charges	11		(373.4)		(680.5)
Net interest income			134.8		140.4
Share of results of associate	30		-		(0.5)
Other operating income	12		16.0		27.0
Total operating income			150.8		166.9
Operating expenses					
Underlying operating expenses	13	(39.3)		(37.8)	
Exceptional operating expenses	14	-		(7.8)	
Total operating expenses			(39.3)		(45.6)
Provisions for losses	19		(66.2)		(62.2)
Operating profit before gains and fair value items			45.3		59.1
Gains on debt repurchase	20		18.4		-
Impairment of goodwill	26		(6.0)		-
Fair value net (losses)	21		(3.4)		(5.4)
Operating profit being profit on ordinary activities before taxation			54.3		53.7
Tax charge on profit on ordinary activities	22		(13.2)		(16.6)
Profit on ordinary activities after taxation for the financial year			41.1		37.1

	Notes	2009	2008
Earnings per share			
- basic	24	13.9p	17.9p
- diluted	24	13.7p	17.9p

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

CONSOLIDATED BALANCE SHEET

30 September 2009

	Notes	2009 £m	2009 £m	2008 £m	2008 £m
Assets employed					
Non-current assets					
Intangible assets	25	9.6		0.4	
Property, plant and equipment	27	13.5		18.5	
Interest in associate	30	-		-	
Financial assets	31	10,640.8		10,647.6	
Deferred tax asset	39	2.8		10.3	
			10,666.7		10,676.8
Current assets					
Current tax assets	40	1.7		-	
Other receivables	41	5.5		6.6	
Cash and cash equivalents	42	480.4		826.3	
			487.6		832.9
Total assets			11,154.3		11,509.7
Financed by					
Equity shareholders' funds					
Called-up share capital	43		299.1		299.1
Reserves	44		408.4		378.7
Share capital and reserves			707.5		677.8
Own shares	52		(56.7)		(56.3)
Total equity			650.8		621.5
Current liabilities					
Financial liabilities	53	1.1		0.9	
Current tax liabilities	57	-		6.3	
Provisions	58	0.5		0.3	
Other liabilities	59	30.4		79.4	
			32.0		86.9
Non-current liabilities					
Financial liabilities	53	10,457.5		10,791.5	
Retirement benefit obligations	56	11.5		5.0	
Provisions	58	-		0.2	
Other liabilities	59	2.5		4.6	
			10,471.5		10,801.3
Total liabilities			10,503.5		10,888.2
			11,154.3		11,509.7

Approved by the Board of Directors on 24 November 2009.
Signed on behalf of the Board of Directors

N S TERRINGTON
Chief Executive

N KEEN
Finance Director

COMPANY BALANCE SHEET

30 September 2009

	Notes	2009		2008	
		£m	£m	£m	£m
Assets employed					
Non-current assets					
Property, plant and equipment	27	7.9		8.7	
Investment in subsidiary undertakings	28	769.9		782.0	
Interest in associate	30	-		-	
Financial assets	31	8.7		15.5	
			786.5		806.2
Current assets					
Other receivables	41	88.5		102.0	
Cash and cash equivalents	42	78.8		64.8	
			167.3		166.8
Total assets			953.8		973.0
Financed by					
Equity shareholders' funds					
Called-up share capital	43		299.1		299.1
Reserves	44		235.1		208.5
Share capital and reserves			534.2		507.6
Own shares	52		(39.5)		(39.5)
Total equity			494.7		468.1
Current liabilities					
Financial liabilities	53	0.8		0.8	
Current tax liabilities	57	1.0		1.0	
Other liabilities	59	317.6		369.4	
			319.4		371.2
Non-current liabilities					
Financial liabilities	53	138.6		132.5	
Other liabilities	59	1.1		1.2	
			139.7		133.7
Total liabilities			459.1		504.9
			953.8		973.0

Approved by the Board of Directors on 24 November 2009.
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 2009

	Notes	2009 £m	2008 £m
Net cash generated by operating activities	60	**738.8**	1,019.9
Net cash generated / (utilised) by investing activities	61	**1.3**	(0.8)
Net cash (utilised) by financing activities	62	**(1,086.2)**	(1,120.1)
Net (decrease) in cash and cash equivalents		**(346.1)**	(101.0)
Opening cash and cash equivalents		**826.2**	927.2
Closing cash and cash equivalents		**480.1**	826.2
Represented by balances within:			
Cash and cash equivalents		**480.4**	826.3
Financial liabilities		**(0.3)**	(0.1)
		480.1	826.2

COMPANY CASH FLOW STATEMENT

For the year ended 30 September 2009

	Notes	2009 £m	2008 £m
Net cash (utilised) /generated by operating activities	60	**(0.6)**	93.9
Net cash generated / (utilised) by investing activities	61	**24.6**	(305.3)
Net cash (utilised) / generated by financing activities	62	**(10.0)**	276.2
Net increase in cash and cash equivalents		**14.0**	64.8
Opening cash and cash equivalents		**64.8**	-
Closing cash and cash equivalents		**78.8**	64.8
Represented by balances within:			
Cash and cash equivalents		**78.8**	64.8
Financial liabilities		**-**	-
		78.8	64.8

STATEMENT OF RECOGNISED INCOME AND EXPENDITURE

For the year ended 30 September 2009

	Notes	The Group 2009 £m	The Group 2008 £m	The Company 2009 £m	The Company 2008 £m
Profit for the year		**41.1**	37.1	**34.6**	1.2
Actuarial (loss) on pension scheme	56	**(7.7)**	(10.4)	-	-
Cash flow hedge gains taken to equity	47	**1.9**	3.3	-	-
Tax on items taken directly to equity	50	**1.6**	1.9	-	-
Total recognised income and expenditure for the year		**36.9**	31.9	**34.6**	1.2

RECONCILIATION OF MOVEMENTS IN EQUITY

For the year ended 30 September 2009

	Notes	The Group 2009 £m	The Group 2008 £m	The Company 2009 £m	The Company 2008 £m
Total recognised income and expenditure for the year		**36.9**	31.9	**34.6**	1.2
Dividends paid	49	**(9.2)**	(2.9)	**(9.2)**	(2.9)
Net proceeds of rights issue		-	279.6	-	279.6
Net movement in own shares		**(0.4)**	0.5	-	-
(Deficit) on transactions in own shares	51	**(0.6)**	(0.6)	-	-
Charge for share based remuneration	15	**1.2**	0.6	**1.2**	0.6
Tax on share based remuneration	50	**1.4**	(0.9)	-	-
Net movement in equity in the year		**29.3**	308.2	**26.6**	278.5
Equity at 30 September 2008		**621.5**	313.3	**468.1**	189.6
Equity at 30 September 2009		**650.8**	621.5	**494.7**	468.1

NOTES TO THE ACCOUNTS

For the year ended 30 September 2009

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 2006 with company number 2336032. The address of the registered office is given on page 42. The nature of the Group's operations and its principal activities are set out in the Directors' Report on pages 14 to 18.

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

2. ADOPTION OF NEW AND REVISED REPORTING STANDARDS

For the year ended 30 September 2009 the requirements of IFRIC 14 – 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' came into force. This has had no effect on the Group's results.

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 8 – 'Operating Segments'
- Amendment to IFRS 2 – 'Share based Payment' in respect of cancellations and vesting conditions
- Amendment to IFRS 7 – 'Financial Instruments – Disclosure' in respect of extended disclosures
- IAS 1 (revised) – 'Presentation of Financial Information'
- Amendments to IAS 39 – 'Financial Instruments – Measurement' in respect of reclassifications and eligible hedged items
- IFRS 9 – 'Financial instruments'

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) amended disclosures in respect of segmental information when IFRS 8 comes into effect, expected to be for the financial year ending 30 September 2010.

(b) amended presentation of the financial statements when the revision to IAS 1 comes into effect, expected to be for the financial year ending 30 September 2010.

(c) extended disclosures in respect of financial instruments when the revisions to IFRS 7 come into effect, expected to be for the financial year ending 30 September 2010, if the Standard is endorsed by the European Union.

(d) such amendments to the presentation and treatment of financial instruments as may be required when IFRS 9 comes into effect, expected to be for the financial year ending 30 September 2014, if the Standard is endorsed by the European Union. This standard was issued on 12 November 2009 and the Group has yet to conduct a full assessment of its potential impact.

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

The provisions of the Companies Act 2006 relating to the preparation of financial statements apply to the Group with effect from its financial year ended 30 September 2009. The application of these requirements in place of those of the Companies Act 1985 has had no material impact on the financial statements of the Group.

3. 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) 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.

(b) Basis of consolidation

The consolidated financial statements deal with the accounts of the Company and its subsidiaries made up to 30 September 2009. 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.

(c) Goodwill

Goodwill arising from the purchase of subsidiary undertakings, representing the excess of the fair value of the purchase consideration over the fair values of acquired assets, including intangible assets, 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.

(d) Intangible assets

Intangible assets comprise purchased computer software and other intangible assets acquired in business combinations.

Purchased computer software is capitalised where it has a sufficiently enduring nature and is stated at cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 25% per annum.

Other intangible assets acquired in business combinations include brands and business networks and are capitalised in accordance with the requirements of IFRS 3 – 'Business Combinations'. Such assets are stated at attributed cost less accumulated amortisation. Amortisation is provided in equal instalments at a rate of 6.67% per annum.

(e) 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.

(f) 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.

(g) **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

(h) **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.

(i) **Investments**

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

(j) **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.

Loans advanced 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. Loans acquired from third parties are initially valued at the purchase consideration paid or payable. Thereafter all loans to customers are valued at this initial 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.

(k) **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.

(l) **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.

For financial accounting purposes provisions for impairments of loans to customers are held in an allowance account. These balances are offset against the gross value of the loan when it is written off on the administration system. After this point a salvage balance may be held in respect of any further recoveries expected on the loan.

3. ACCOUNTING POLICIES (continued)

(m) Amounts owed by or to group companies

In the accounts of the Company balances owed by or to other group companies are carried at the current amount outstanding less any provision. Where balances owing between group companies fall within the definition of either financial assets or financial liabilities given in IAS 32 – 'Financial Instruments: Presentation' they are classified as 'Loans and Receivables' or 'Other financial liabilities', respectively.

(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.

Gains on the purchase of the Group's Floating Rate Notes or corporate bonds are recognised as income at the time of the transaction.

(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 deferred income and is being credited to profit over the lease term on a straight line basis.

(s) Derivative financial instruments

Derivative instruments utilised by the Group comprise currency swap, interest rate swap and interest rate option 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) Revenue

The revenue of the Group comprises interest receivable and similar charges and other income. The accounting policy for the recognition of each element of revenue is described separately within these accounting policies.

3. ACCOUNTING POLICIES (continued)

(y) Fee and commission income

Other income includes administration fees charged to borrowers, which are credited when the related service is performed, fees charged to third parties for account administration services, which are credited as those services are 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.

(z) 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.

(aa) 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.

(bb) 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.

(cc) 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.

4. 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 56. Where actual conditions differ from those assumed the ultimate value of the obligation would be different.

(e) Goodwill and intangible assets arising on acquisition

The value of goodwill and intangible assets recognised on the Group's acquisition of TBMC, described in note 7 is derived from the projected cash flows for that business at the time of acquisition, based on management forecasts. The accuracy of this valuation would therefore be compromised by any differences between these forecasts and the levels of business activity that the entity might actually have been able to generate in the absence of the acquisition. This valuation will also be affected by the accuracy of the discount factor used.

The carrying value of the goodwill and intangible assets is dependent on the accuracy of the inputs into the impairment test described in note 26.

5. CAPITAL MANAGEMENT

The Group's objectives in managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk, availability and cost. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, having particular regard to the relative costs and availability of debt and equity finance at any given time. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, issue or redeem other capital instruments, such as corporate bonds, or sell assets to reduce debt. The Group is not subject to any externally imposed capital requirements.

The Board of Directors regularly review the proportion of working capital represented by debt and equity. Net debt is calculated as total debt, other than securitised and warehouse debt, valued at principal value, less free cash. Adjusted equity comprises all components of equity (i.e. share capital, share premium, minority interest, retained earnings, and revaluation surplus) other than amounts recognised in equity relating to cash flow hedges.

The debt and equity amounts at 30 September 2009 and at 30 September 2008 were as follows:

	2009 £m	2008 £m
Debt		
Corporate bond	**110.0**	120.0
Bank overdraft	**0.3**	0.1
Less: Free cash	**(84.0)**	(73.2)
Net debt	**26.3**	46.9
Equity		
Total equity	**650.8**	621.5
Less: cash flow hedging reserve	**(1.2)**	0.1
Adjusted equity	**649.6**	621.6
Total working capital	**675.9**	668.5
Debt	**3.9%**	7.0%
Equity	**96.1%**	93.0%
Total working capital	**100.0%**	100.0%

The increased proportion of working capital represented by equity during 2009 resulted primarily from the operation of the policy described above.

6. FINANCIAL RISK MANAGEMENT

The principal financial 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 Credit Committee and the Asset and Liability Committee to review and agree policies for managing each of these risks, as described in the Corporate Governance Statement on pages 36 to 39, 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.

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 only. 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 the IAS 39 rules, while in other cases hedge accounting has not been adopted either because natural accounting offsets are expected or because complying with the IAS 39 hedge accounting rules would be especially onerous.

The Group has designated a number of derivatives as fair value hedges for accounting purposes. 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, which was taken out for this specific purpose.

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.

The only derivative financial instrument held by the Company is the swap related to the fixed rate corporate bond borrowing described above.

Credit risk

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.

Primary responsibility for credit risk management across the Group lies with the Credit Committee. The Credit Committee is made up of four senior members of staff, headed by the Finance Director. Its key responsibilities include setting and reviewing credit policy, controlling applicant quality, tracking account performance against targets, agreeing product criteria and lending guidelines and monitoring performance and trends.

The assets of the Group and the Company which are subject to credit risk are set out below:

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Loans to customers (note 34)	**9,314.3**	10,053.2	**-**	-
Loans to associates (note 37)	**-**	15.5	**-**	15.5
Derivative financial assets (note 38)	**1,287.5**	590.9	**8.7**	-
Amounts owed by Group companies (note 41)	**-**	-	**88.5**	101.4
Amounts owed by associates (note 41)	**-**	0.5	**-**	0.5
Accrued interest (note 41)	**0.5**	2.8	**-**	0.1
Cash (note 42)	**480.4**	826.3	**78.8**	64.8
Maximum exposure to credit risk	**11,082.7**	11,489.2	**176.0**	182.3

6. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (Continued)

The Group's credit risk is primarily attributable to its loans to customers and associates.

While this maximum exposure represents the potential loss which might have to be accounted for by the Group, the terms on which the Group's loan assets are funded, described under Liquidity Risk below, limit the amount of principal repayments on the Group's securitised and warehouse borrowings in cases of capital losses on assets, significantly reducing the effective shareholder value at risk.

The Group's loan assets at 30 September 2009 are analysed as follows:

	2009 £m	2009 %	2008 £m	2008 %
Buy-to-let mortgages	8,585.0	92.2%	9,196.9	91.5%
Owner occupied mortgages	179.3	1.9%	221.8	2.2%
Total first mortgages	8,764.3	94.1%	9,418.7	93.7%
Secured loans	467.4	5.0%	487.4	4.8%
Loans secured on property	9,231.7	99.1%	9,906.1	98.5%
Car loans	48.3	0.5%	86.8	0.9%
Retail finance loans	9.0	0.1%	25.6	0.3%
Other loans	25.3	0.3%	34.7	0.3%
Total loans to customers	9,314.3	100.0%	10,053.2	100.0%

There are no significant concentrations of credit risk due to the large number of customers included in the portfolios.

The Group's underwriting philosophy is based on a combination of sophisticated individual credit assessment and the automated efficiencies of a scored decision making process. Information on each applicant is combined with data taken from a credit reference bureau to provide a complete credit picture of the applicant and the borrowing requested. Key information is validated through a combination of documentation and statistical data which collectively provides evidence of the applicant's ability and willingness to pay the amount contracted under the loan agreement.

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 effectively 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 considering whether to acquire loan assets, the Group reviews documentary and statistical evidence to achieve a level of confidence that the Group's investment will be recovered similar to that provided by the underwriting process.

In order to control credit risk relating to counterparties to the Group's derivative financial instruments and cash deposits, the Asset and Liability Committee determines which counterparties the Group will deal with, establishes limits for each counterparty and monitors compliance with those limits. Such counterparties are typically highly rated banks and, for all cash deposits and derivative positions held within the Group's securitisation structures, must comply with criteria set out in the financing arrangements. Where a derivative counterparty fails to meet the required criteria they are obliged under the terms of the instruments to set aside a cash collateral deposit. The amounts of these cash collateral deposits, which do not form part of the Group's cash position, are given in note 38.

The Group's cash balances are held in sterling at London banks in current accounts and as short fixed term deposits. Credit risk on these balances, and the interest accrued thereon, is considered to be immaterial. Further information on the Group's associated undertaking is given in note 30.

An analysis of the indexed loan to value ratio for those loan accounts secured on property by value at 30 September 2009 is set out below.

	2009 First Mortgages %	2009 Secured Loans %	2008 First Mortgages %	2008 Secured Loans %
Loan to value ratio				
Less than 70%	**17.7**	**26.0**	19.3	22.5
70% to 80%	**16.5**	**13.2**	17.3	13.7
80% to 90%	**30.2**	**16.5**	32.5	16.9
90% to 100%	**30.0**	**14.2**	25.2	15.7
Over 100%	**5.6**	**30.1**	5.7	31.2
	100.0	**100.0**	100.0	100.0
Average loan to value ratio	**82.6**	**88.4**	80.7	89.5

The number of accounts in arrears by asset class, based on the most commonly quoted definition of arrears for the type of asset, at 30 September 2009 and 30 September 2008, compared to the most recent available industry averages published by the Council of Mortgage Lenders ('CML') and the Finance and Leasing Association ('FLA'), was;

		2009 %	2008 %
First mortgages			
Buy-to-Let accounts more than 3 months in arrears		**1.54**	0.53
Owner Occupied accounts more than 3 months in arrears		**4.11**	3.53
CML data at 30 September 2009	Buy-to-Let	**3.23**	1.71
	All mortgages	**2.40**	1.44
Secured loans			
Accounts more than 2 months in arrears		**7.94**	4.61
FLA data for secured loans at 30 September 2009		**19.80**	12.80
Car loans			
Accounts more than 2 months in arrears		**4.44**	2.17
FLA data for all personal loans at 30 September 2009		**5.00**	4.20
Other loans			
Accounts more than 2 months in arrears		**47.94**	24.65

No published industry data for asset classes comparable to the Group's retail finance and other books has been identified.

The number of accounts in arrears will be higher for closed books such as the owner occupied mortgage book and the car finance, retail finance and unsecured loan books than for comparable active ones, as performing accounts pay off their balances.

6. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The payment status of the current balances of the Group's loan assets, at 30 September 2009 and at 30 September 2008 split between those accounts considered as performing and those included in the population for impairment testing, is shown below.

FIRST MORTGAGES

	2009 £m	2008 £m
Not past due	7,937.5	8,758.1
Arrears less than 3 months	445.7	401.3
Performing accounts	8,383.2	9,159.4
Arrears 3 to 6 months	57.6	41.1
Arrears 6 to 12 months	69.7	24.8
Arrears over 12 months	91.7	41.6
Possessions	2.1	2.7
Impairment population	221.1	110.2
	8,604.3	9,269.6

CONSUMER FINANCE

	Secured loans £m	Car loans £m	Retail finance loans £m	Total £m
30 September 2009				
Not past due	370.3	39.3	4.7	414.3
Arrears less than 2 months	48.1	2.5	0.2	50.8
Performing accounts	418.4	41.8	4.9	465.1
Arrears 2 to 6 months	32.0	1.7	0.3	34.0
Arrears 6 to 9 months	9.5	0.4	0.2	10.1
Arrears 9 to 12 months	3.6	0.2	0.2	4.0
Arrears over 12 months	5.1	0.8	2.8	8.7
Impairment population	50.2	3.1	3.5	56.8
	468.6	44.9	8.4	521.9
30 September 2008				
Not past due	396.9	75.5	17.7	490.1
Arrears less than 2 months	37.0	3.1	0.2	40.3
Performing accounts	433.9	78.6	17.9	530.4
Arrears 2 to 6 months	18.6	1.7	0.4	20.7
Arrears 6 to 9 months	4.5	0.3	0.2	5.0
Arrears 9 to 12 months	3.8	0.1	0.3	4.2
Arrears over 12 months	5.6	0.4	2.1	8.1
Impairment population	32.5	2.5	3.0	38.0
	466.4	81.1	20.9	568.4

OTHER LOANS

	2009 £m	2008 £m
Not past due	8.4	17.1
Arrears less than 1 month	0.3	0.4
Performing accounts	8.7	17.5
Arrears 1 to 3 months	0.4	0.5
Arrears 3 to 6 months	0.6	0.8
Arrears 6 to 12 months	1.8	1.8
Arrears over 12 months	65.7	63.2
Impairment population	68.5	66.3
	77.2	83.8

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 54 and the assets backing the Notes are shown in notes 32 and 33.

In the Group's consumer finance SPVs, principal cash was not required to be repaid to noteholders during an initial period, but instead could be used to acquire new loans from the Group, subject to underwriting conditions being met. Following the completion of this initial period, principal cash is repaid in the same way as for other SPVs.

The Group provides additional funding to the SPV at inception, subordinated to the external funding, which means that 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 particular securitisation, allowing principal payments to be made even if loans default. These cash balances are included within the restricted cash balances disclosed in note 42.

New loan originations made before 29 February 2008 were held within the revolving 'warehouse' facility provided to Paragon Second Funding Limited, from the point of origination until their inclusion in a securitisation deal. This warehouse functioned in a similar way to an SPV, except that funds were drawn down as advances were made and repaid when loans were securitised. On 29 February 2008 the warehouse ceased to be available for new drawings, although assets held within it at that time continued to be funded. Repayment of the principal on these assets is not required unless amounts are realised from them. 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 54 and details of the loan assets within the warehouse are given in notes 32 and 33.

Since 29 February 2008 the only advances made by the Group have been Consumer Loans and further advances on existing mortgage accounts, which are funded using the existing drawings in the SPV companies. The provision of new Consumer Loans ceased on 9 April 2009, except for further advances on existing accounts, when the period over which new loans could be sold to the consumer finance SPVs ended.

6. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

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.

The final repayment date for all of the securitisation and warehouse borrowings is more than five years from the balance sheet date, the earliest falling due in 2033 and the latest in 2050. The equivalent sterling principal amount outstanding at 30 September 2009 under these arrangements, allowing for the effect of the cross currency basis swaps, described under currency risk below, which are net settled with the loan payments, was £9,007.3m (2008: £10,090.8m). The total sterling amount payable under these arrangements, were these principal amounts to remain outstanding until the final repayment date would be £21,413.7m (2008: £24,917.2m). As the principal will, as discussed above, reduce as customers repay or redeem their accounts, the cash flow will in practice be far less than this amount.

The total undiscounted amounts, inclusive of estimated interest, which would be payable in respect of the Group's other borrowings, should those balances remain outstanding until the contracted repayment date, together with amounts payable in respect of the 'other accruals' shown in note 59 are shown below;

	Corporate bond £m	Other accruals £m	Total £m
30 September 2009			
Payable in less than one year	**7.7**	**10.9**	**18.6**
Payable in one to two years	**7.7**	**0.5**	**8.2**
Payable in two to five years	**23.2**	**0.1**	**23.3**
Payable in over five years	**133.1**	**-**	**133.1**
	171.7	**11.5**	**183.2**
30 September 2008			
Payable in less than one year	8.4	9.0	17.4
Payable in one to two years	8.4	1.9	10.3
Payable in two to five years	25.2	0.6	25.8
Payable in over five years	153.7	-	153.7
	195.7	11.5	207.2

The cash flows described above will include those for interest on borrowings accrued at 30 September 2009 disclosed in note 59.

The cash flows which are expected to arise from derivative contracts in place at the year end, estimating future floating rate payments and receipts on the basis of the yield curve at the balance sheet date are as follows:

	2009 Total cash outflow / (inflow) £m	2008 Total cash outflow / (inflow) £m
On derivative liabilities		
Payable in less than one year	38.8	(0.5)
Payable in one to two years	8.1	9.8
Payable in two to five years	5.6	9.9
Payable in over five years	30.8	82.3
	83.3	101.5
On derivative assets		
Payable in less than one year	(7.9)	(20.4)
Payable in one to two years	(6.6)	(0.6)
Payable in two to five years	(7.4)	(6.8)
Payable in over five years	(32.7)	(79.6)
	(54.6)	(107.4)
	28.7	(5.9)

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. Where asset backed loan notes are issued in foreign currencies, cross-currency basis swaps are put in place converting the reference interest rate to a Sterling LIBOR basis.

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 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 Group has entered into various interest rate basis swap arrangements to alter the effective basis of interest payments on certain borrowings to match the underlying assets, though due to their nature and the low notional value of these swaps, they do not have a significant impact on the Group's results.

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.

To assess the Group's exposure to interest rate movements the notional impact of a 1% change in UK interest rates on the equity of the Group at 30 September 2009, and the notional annualised impact of such a change on the operating profit of the Group, based on the year end balance sheet have been calculated.

On this basis a 1% increase in UK interest rates would reduce the Group's equity at 30 September 2009 by £4.5m (2008: £5.2m) and increase profit before tax by £3.8m (2008: increase profit before tax by £3.1m).

6. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

This calculation allows only for the direct effects of any change in UK interest rates. In practice such a change might have wider economic consequences which would themselves potentially effect the Group's business and results.

Although certain of the Group's borrowings have interest rates dependant on US Dollar and Euro LIBOR rates, the effect of the cross currency basis swaps is such that the Group's results have no material exposure to movements in these rates. The effects of independent 1% increases in US or Euro interest rates would be to increase the Group's equity by £1.4m (2008: £1.5m) and £2.7m (2008: £2.6m) respectively.

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 54. 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, and no sensitivity analysis is presented for currency risk.

The equivalent sterling principal amounts of notes in issue under these arrangements, and their carrying values at 30 September 2009 and 30 September 2008 are:

	2009 Equivalent Sterling principal £m	**2009 Carrying value £m**	2008 Equivalent Sterling principal £m	2008 Carrying value £m
US dollar notes	**3,177.3**	**3,717.8**	3,587.3	3,794.8
Euro notes	**2,191.8**	**2,930.1**	2,362.3	2,751.5
	5,369.1	**6,647.9**	5,949.6	6,546.3

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.

In the absence of a liquid market in loan assets the directors have considered the estimated cash flows expected to arise from the Group's investments in its loans to customers and have concluded that the carrying value of these assets, determined on the amortised cost basis, is not significantly different from the fair value of the assets derived on a discounted cash flow basis.

7. ACQUISITION

On 25 January 2007 the Group acquired a 33% interest in the equity of The Business Mortgage Company Limited and its subsidiary companies ('TBMC'), a mortgage broker, as part of a transaction in which the Company supported the purchase of TBMC by its management, providing facilities of £15.75 million. TBMC was treated as an associate in the previous financial statements of the Group. With the significant downturn in market activity during 2008 the business of TBMC suffered and, in order to secure the future of this strategically important business channel, the Group agreed to suspend interest payments on its loan to TBMC in exchange for the remaining equity. Consequently the Group acquired the remaining 67% interest in the equity of TBMC on 17 December 2008. This transaction has been accounted for by the purchase method of accounting.

The following table sets out the fair value of the major categories of assets and liabilities acquired to arrive at the fair values included in the consolidated financial statements at the date of acquisition, together with the fair values of the consideration given and the Group's pre-existing non-controlling interest in the company.

	2009 £m	2008 £m
Intangible assets	8.2	-
Tangible fixed assets	0.1	-
Deferred tax	0.8	-
Other receivables	0.2	-
Cash at bank and in hand	-	-
Loan from Group	(15.4)	-
Other amounts owed to Group	(1.4)	-
Other liabilities	(0.1)	-
Total net identifiable liabilities	(7.6)	-
Goodwill	7.6	-
Total assets at acquisition	-	-
Non controlling interest	-	-
Total assets acquired at fair value	-	-

No cash consideration was payable in respect of the transaction.

The identifiable intangible assets include trademarks, information systems and the benefit of various contractual relationships. The goodwill arising from the acquisition relates to the benefits of combining the company's operations with those of the Group and from intangible assets which do not qualify for separate recognition. None of the goodwill is expected to be deductible for corporation tax purposes.

The gross contractual amount in respect of the other receivables shown above is not significantly different from the carrying value.

No acquisition related costs were incurred in the transaction and there are no contingent consideration arrangements.

At the date of acquisition the carrying value of the Group's 33% interest in TBMC was £nil. No gain or loss has been recognised on remeasuring this asset at fair value on acquisition. The difference between the fair value at acquisition of the company's loan liability to the Group and its carrying value in the accounts of the Group of £0.3m has been credited to impairment provisions in the financial statements for the period ended 30 September 2009.

Between the date of acquisition and 30 September 2009 the revenue contributed to the Group by the acquisition was £0.2m and its loss for the period before tax was £8.1m.

Had the acquisition occurred on 1 October 2008, the revenue of the enlarged group for the year ended 30 September 2009, including interest receivable and other income, would have been £523.8m and its profit before tax for the period would have been £53.6m.

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8. 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. 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.

Financial information about these business segments is shown below.

Year ended 30 September 2009

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	443.8	64.4	508.2
Interest payable	(347.8)	(25.6)	(373.4)
Net interest income	96.0	38.8	134.8
Share of associate result	-	-	-
Other operating income	11.4	4.6	16.0
Total operating income	107.4	43.4	150.8
Operating expenses	(31.2)	(8.1)	(39.3)
Provisions for losses	(31.5)	(34.7)	(66.2)
	44.7	0.6	45.3
Gains on debt repurchases	15.9	2.5	18.4
Impairment of goodwill	(6.0)	-	(6.0)
Fair value net (losses) / gains	(3.6)	0.2	(3.4)
Operating profit	51.0	3.3	54.3
Tax charge			(13.2)
Profit after tax			41.1

Year ended 30 September 2008

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	712.7	108.2	820.9
Interest payable	(627.7)	(52.8)	(680.5)
Net interest income	85.0	55.4	140.4
Share of associate result	(0.5)	-	(0.5)
Other operating income	17.6	9.4	27.0
Total operating income	102.1	64.8	166.9
Operating expenses	(35.2)	(10.4)	(45.6)
Provisions for losses	(10.9)	(51.3)	(62.2)
	56.0	3.1	59.1
Gains on debt repurchases	-	-	-
Impairment of goodwill	-	-	-
Fair value net (losses) / gains	(5.2)	(0.2)	(5.4)
Operating profit	50.8	2.9	53.7
Tax charge			(16.6)
Profit after tax			37.1

The assets and liabilities attributable to each of the segments at 30 September 2009 and 30 September 2008 were:

	First Mortgages £m	Consumer Finance £m	Total £m
30 September 2009			
Segment assets	**10,443.4**	**710.9**	**11,154.3**
Segment liabilities	**(9,929.5)**	**(574.0)**	**(10,503.5)**
	513.9	**136.9**	**650.8**
30 September 2008			
Segment assets	10,580.8	928.9	11,509.7
Segment liabilities	(10,095.4)	(792.8)	(10,888.2)
	485.4	136.1	621.5

The capital expenditure attributable to each segment during the years ended 30 September 2009 and 30 September 2008 was:

	First Mortgages £m	Consumer Finance £m	Total £m
2009	**0.2**	**0.1**	**0.3**
2008	0.4	1.7	2.1

9. REVENUE

	2009 £m	2008 £m
Interest receivable	**508.2**	820.9
Other income	**16.0**	27.0
Total revenue	**524.2**	847.9
Arising from:		
First Mortgages	**455.2**	730.3
Consumer Finance	**69.0**	117.6
Total revenue	**524.2**	847.9

10. INTEREST RECEIVABLE

	2009 £m	2008 £m
Interest on loans to customers	489.1	762.8
Interest on loans to associate	0.5	1.8
Other interest receivable	15.1	52.7
Total interest on financial assets	504.7	817.3
Return on pension scheme assets	3.5	3.6
	508.2	820.9

Interest on loans to customers includes £15.8m (2008: £46.8m) charged on accounts where an impairment provision has been made.

11. INTEREST PAYABLE AND SIMILAR CHARGES

	2009 £m	2008 £m
On asset backed loan notes	298.9	558.7
On corporate bond	7.7	9.9
On bank loans and overdrafts	60.9	105.8
Total interest on financial liabilities	367.5	674.4
On pension scheme liability	3.2	2.8
On finance leases	1.2	1.3
Other finance costs	1.5	2.0
	373.4	680.5

12. OTHER OPERATING INCOME

	2009 £m	2008 £m
Loan account fee income	10.4	17.2
Insurance income	2.5	7.4
Third party servicing	1.0	0.6
Other income	2.1	1.8
	16.0	27.0

13. UNDERLYING OPERATING EXPENSES

	Note	2009 £m	2008 £m
Underlying employment costs	15	**23.7**	22.9
Underlying auditor remuneration	18	**0.8**	0.8
Amortisation of intangible assets	25	**0.7**	0.3
Depreciation	27	**3.2**	4.0
Operating lease rentals	64	**4.1**	3.4
Other administrative costs		**6.8**	6.4
		39.3	37.8

14. EXCEPTIONAL OPERATING EXPENSES

Exceptional operating expenses are costs of a one-off nature which do not result from the underlying business activities of the Group and are shown separately from its ongoing expenses. These comprise:

	2009 £m	2009 £m	2008 £m	2008 £m
Standby underwriting fee		-		4.1
Exceptional professional costs				
Proposed financing transactions				
Paid to auditors (note 18)	-		0.5	
Other	-		1.1	
Bid approach	-		0.5	
		-		2.1
Redundancy costs				
Redundancy payments (note 15)	-		1.4	
Other costs	-		0.2	
		-		1.6
		-		7.8
Of which:				
First Mortgages		-		6.3
Consumer Finance		-		1.5
		-		7.8

The standby underwriting fee was charged in respect of the standby underwriting agreement with UBS entered into on 19 November 2007, whereby the Company had the right to require UBS to underwrite, in full, a rights issue of up to £280.0 million, before 27 February 2008.

Exceptional professional costs relate to services provided in respect of proposed financing transactions in the year ended 30 September 2008 which did not proceed and in respect of an approach from a third party leading to a rejected offer for the shares of the Company in that year.

15. EMPLOYEES

The average number of persons (including directors) employed by the Group during the year was 553 (2008: 627). The number of employees at the end of the year was 596 (2008: 534).

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

	2009 £m	2009 £m	2008 £m	2008 £m
Share based remuneration	1.2		0.6	
Other wages and salaries	19.2		21.0	
Total wages and salaries		20.4		21.6
National Insurance on share based remuneration	-		(0.6)	
Other social security costs	1.8		1.7	
Total social security costs		1.8		1.1
Defined benefit pension cost	1.4		1.5	
Other pension costs	0.1		0.1	
Total pension costs		1.5		1.6
Total staff costs		23.7		24.3
Of which				
Underlying costs (note 13)		23.7		22.9
Redundancy costs (note 14)		-		1.4
		23.7		24.3

The credit in the preceding period in respect of National Insurance on share based remuneration relates to the partial reversal of accruals made on unvested awards which are now unlikely to vest.

Details of the pension schemes operated by the Group are given in note 56.

The Company has no employees. Details of the directors' remuneration are given in note 16.

16. 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 27 to 32.

	2009 £m	2008 £m
Short-term employee benefits	2.3	2.3
Post-employment benefits	0.4	0.4
Termination benefits	0.4	-
Share based payment	0.4	(0.4)
	3.5	2.3

The credit in respect of share based remuneration in the year ended 30 September 2008 relates to the reversal of charges made in respect of share based payment arrangements with non-market based vesting conditions which are not now expected to vest.

17. 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 15.

Further details of share based payment arrangements are given in the Report of the Board to the Shareholders on Directors' Remuneration on pages 27 to 32.

(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 2009 and the year ended 30 September 2008 is shown below.

	2009 Number	2009 Weighted average exercise price p	2008 Number	2008 Weighted average exercise price p
Options outstanding				
£1 ordinary shares				
At 1 October 2008	4,840,258	195.33	-	-
Share conversion and rights issue	-	-	2,374,606	389.69
Granted in the year	-	-	2,808,211	63.00
Exercised in the year	-	-	-	-
Lapsed during the year	(625,658)	226.55	(342,559)	454.79
At 30 September 2009	4,214,600	190.70	4,840,258	195.33
Options exercisable	1,593,440	396.17	2,017,955	370.61
10p ordinary shares				
At 1 October 2008	-	-	4,062,440	255.78
Granted in the year	-	-	-	-
Exercised in the year	-	-	-	-
Lapsed during the year	-	-	(276,744)	410.45
Share conversion and rights issue	-	-	(3,785,696)	244.47
At 30 September 2009	-	-	-	-
Options exercisable	-	-	-	-

17. SHARE BASED REMUNERATION (continued)

The weighted average remaining contractual life of options outstanding at 30 September 2009 was 20.2 months (2008: 25.7 months).

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

Grant date	Period exercisable	Exercise price	**Number 2009**	Number 2008
Executive Schemes				
11/01/1999	11/01/2002 to 11/01/2009	235.13p	**-**	301,104
17/02/2000	17/02/2003 to 17/02/2010	234.33p	**94,095**	94,095
27/11/2001	27/11/2004 to 27/11/2011	395.34p	**319,923**	319,923
29/07/2002	29/07/2005 to 29/07/2012	297.30p	**244,647**	244,647
14/03/2003	14/03/2006 to 14/03/2013	297.30p	**413,110**	413,110
18/12/2003	18/12/2006 to 18/12/2013 †	540.40p	**225,199**	225,199
01/06/2004	01/06/2007 to 01/06/2014 †	514.10p	**25,092**	25,092
01/12/2004	01/12/2007 to 01/12/2014 †	555.34p	**264,672**	264,672
			1,586,738	1,887,842
Sharesave Schemes				
18/06/2003	01/08/2008 to 01/02/2009	291.78p	**-**	71,372
23/06/2005	01/08/2008 to 01/02/2009	520.89p	**-**	58,741
23/06/2005	01/08/2010 to 01/02/2011	520.89p	**4,880**	5,196
28/07/2006	01/09/2009 to 01/03/2010	837.73p	**6,702**	8,883
28/07/2006	01/09/2011 to 01/03/2012	837.73p	**191**	574
20/06/2007	01/08/2010 to 01/02/2011	685.84p	**2,937**	11,189
20/06/2007	01/08/2012 to 01/02/2013	685.84p	**4,960**	4,960
18/07/2008	01/09/2011 to 01/03/2012	63.00p	**1,576,432**	1,698,776
18/07/2008	01/09/2013 to 21/11/2012	63.00p	**1,031,760**	1,092,725
			2,627,862	2,952,416
			4,214,600	4,840,258

† 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.

The number of share options outstanding and the exercise price under each of the arrangements shown above was adjusted in accordance with the respective scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008, described in note 43.

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.

The fair value of options granted is determined using a Binomial model. No grants were made in the year ended 30 September 2009. Details of the awards made in the year ended 30 September 2008, which were all made under the Sharesave scheme, are shown below:

Grant date	18/07/08	18/07/08
Number of awards granted	1,715,486†	1,092,725†
Market price at date of grant	82.25p	82.25p
Contractual life (years)	3.0	5.0
Fair value per share at date of grant	19.83p	18.38p
Inputs to valuation model		
Expected volatility	29.03%	29.03%
Expected life at grant date (years)	3.42	5.41
Risk-free interest rate	4.97%	4.97%
Expected dividend yield	4.86%	4.86%
Expected annual departures	5.00%	5.00%

† £1 ordinary shares

The expected volatility of the share price used in determining the fair value is based on the annualised standard deviation of daily changes in price over the six years preceding the grant date.

17. SHARE BASED REMUNERATION (continued)

(b) Paragon Performance Share Plan

Awards under this plan comprise a right to acquire 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 2009 and 30 September 2008 were:

Grant date	Period exercisable	**Number 2009**	Number 2008
07/03/2006	07/03/2009 to 07/09/2009 †	-	110,008
25/05/2006	25/05/2009 to 25/11/2009 †	-	56,377
25/09/2006	25/09/2009 to 25/03/2010 †	-	54,298
09/01/2007	09/01/2010 to 09/07/2010 †	**71,680**	76,551
28/03/2007	28/03/2010 to 28/09/2010 †	**55,467**	56,118
14/06/2007	14/06/2010 to 14/12/2010 †	**91,920**	98,540
26/09/2007	26/09/2010 to 26/03/2011 †	**127,318**	130,534
26/11/2007	26/11/2010 to 26/05/2011 †	**358,426**	383,713
18/03/2008	18/03/2011 to 18/09/2011 §	**860,000**	860,000
29/09/2008	29/09/2011 to 29/03/2012 ‡	**2,081,344**	2,331,830
21/05/2009	21/05/2012 to 21/05/2015 *	**3,419,549**	-
		7,065,704	4,157,969

† 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 receipt of these shares is subject to the Company's TSR exceeding the TSR of a comparator group drawn from the FTSE All Share Banks and General Financial sectors. No part of an award will vest for below median performance, 35% will vest for median performance and 100% will vest for upper quartile performance. Between median and upper quartile performance, awards will vest on a straight line basis.

‡ The receipt of these shares is subject to an absolute TSR performance condition, whereby the increase in the net return index over the performance period, based on a share price that is equivalent on the grant date to 125 pence per share, must at least equal compound annual growth of 10%. 35% of the awards will vest for 10% compound annual growth over the performance period, increasing on a straight line basis to full vesting for compound annual growth of 15%. The performance period is the three year period commencing on the date of grant.

* The receipt of these shares is subject to a performance condition comparing the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 on the date of grant over the three years commencing on the date of grant. 25% of the awards will vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance.

The number of awards outstanding under each of the arrangements shown above was adjusted in accordance with the scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008, described in note 43.

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 2009 and the year ended 30 September 2008 are shown below:

Grant date	21/05/09	29/09/08	18/03/08	26/11/07
Number of awards granted	3,419,550†	2,331,830†	860,000†	611,690*
Market price at date of grant	70.75p	72.00p	94.00p	130.50p
Fair value per share at date of grant	11.67p	5.28p	29.90p	37.46p
Inputs to valuation model				
Expected volatility	82.78%	33.58%	31.19%	54.50%
Risk-free interest rate	2.13%	3.97%	3.59%	4.26%
Expected dividend yield	4.43%	5.51%	8.78%	4.00%

* 10p ordinary shares
† £1 ordinary shares

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

For awards granted before 18 July 2008 the expected volatility of the share price used in determining the fair value was based on the annualised standard deviation of daily changes in price over the previous year from the grant date. The expected volatility for awards granted between this date and 30 September 2008 is calculated using the same method but using daily changes in price over the six years preceding the grant date. The expected volatility for awards granted after this date is calculated using the same method but using daily changes in price over the three years preceding the grant date.

17. SHARE BASED REMUNERATION (continued)

(c) Deferred Bonus awards

Awards under this scheme comprise a right to acquire 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 2009 and 30 September 2008 were:

Grant date	Transfer date	**Number 2009**	Number 2008
13/03/2006	01/10/2008	-	47,468
15/01/2007	01/10/2009	**37,595**	42,793
28/12/2007	01/10/2010	**29,121**	29,121
		66,716	119,382

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

The number of awards outstanding under each of the arrangements shown above was adjusted in accordance with the scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008, described in note 43.

The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model. No awards were made in the year ended 30 September 2009. Details of the awards made in the year ended 30 September 2008 are shown below:

Grant date	**28/12/07**
Number of awards granted	46,423*
Market price at date of grant	132.00p
Fair value per share at date of grant	114.11p
Inputs to valuation model	
Risk-free interest rate	4.30%
Expected dividend yield	4.85%

* 10p ordinary shares

(d) Matching Share Plan

Awards under this plan comprise a right to acquire 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 2009 and at 30 September 2008 were:

Grant Date	Transfer date	**Number 2009**	Number 2008
22/03/2006	22/06/2009 †	-	93,875
09/01/2007	09/01/2010 †	**84,081**	84,081
02/01/2008	02/01/2011 †	**56,680**	56,680
		140,761	234,636

† 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 number of awards outstanding under each of the arrangements shown above was adjusted in accordance with the scheme rules, following the share consolidation on 29 January 2008 and the rights issue on 21 February 2008, described in note 43.

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. No awards were made in the year ended 30 September 2009. Details of the awards made in the year ended 30 September 2008 are shown below:

Grant date	**02/01/08**
Number of awards granted	90,355*
Market price at date of grant	132.25p
Fair value per share at date of grant	36.88p
Inputs to valuation model	
Expected volatility	55.04%
Risk-free interest rate	4.19%
Expected dividend yield	4.93%

* 10p ordinary shares

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

For awards granted before 18 July 2008 the expected volatility of the share price used in determining the fair value was based on the annualised standard deviation of daily changes in price over the previous year from the grant date. The expected volatility for awards granted after this date is calculated using the same method but using daily changes in price over the six years preceding the grant date.

18. 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 analysis includes amounts charged to the profit and loss account or included within the issue costs of debt and equity in respect of fees paid to the Group auditors and their associates.

	2009 £000	2009	2008 £000	2008
Group audit fee	162	22%	191	14%
Other services				
Audit of associated undertakings pursuant to legislation				
Subsidiary audit fees	259	34%	255	19%
Total audit fees	421	56%	446	33%
Other services pursuant to legislation				
Interim review	40	5%	40	3%
Other services related to taxation				
Compliance services	130	17%	100	7%
Advisory services	165	22%	82	6%
	295	39%	182	13%
Services relating to corporate finance transactions				
Rights issue	-	-	251	18%
Financing	-	-	437	32%
	-	-	688	50%
Other services	-	-	9	1%
Total fees	756	100%	1,365	100%
Irrecoverable VAT	113		239	
Total cost to the Group	869		1,604	
Of which:				
Included in underlying operating expenses (note 13)	799		796	
Included in exceptional operating expenses (note 14)	-		513	
Included in gains on debt repurchase	70		-	
Deducted from share premium account	-		295	
	869		1,604	

In addition to the amounts above, the auditors received fees of £7,000 (2008: £7,000), excluding VAT, in respect of the audit of the Group pension scheme.

19. PROVISIONS FOR LOSSES

	2009 £m	2008 £m
Impairment of financial assets (note 35)		
First mortgage loans	31.2	10.8
Other secured loans	18.9	9.3
Finance lease receivables	5.0	3.9
Retail finance loans	0.8	0.9
Other loans	10.0	37.2
On loans to customers	65.9	62.1
Other provisions (note 58)	0.3	0.1
	66.2	62.2

20. GAINS ON DEBT REPURCHASE

	2009 £m	2008 £m
On asset backed loan notes	13.9	-
On corporate bond	4.5	-
	18.4	-

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

The cash consideration paid on these purchases, including transaction costs of £0.3m was:

	2009 £m	2008 £m
On asset backed loan notes	13.9	-
On corporate bond	5.4	-
	19.3	-

21. FAIR VALUE NET (LOSSES)

	2009 £m	2008 £m
Net (loss) on derivatives designated as fair value hedges	(51.7)	(15.6)
Fair value adjustments from hedge accounting	51.0	10.8
Ineffectiveness of fair value hedges	(0.7)	(4.8)
Ineffectiveness of cash flow hedges	-	-
Net (losses) on other derivatives	(2.7)	(0.6)
	(3.4)	(5.4)

The fair value net loss represents the accounting volatility on derivative instruments which are matching risk exposure on an economic basis generated by the requirements of IAS 39. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The losses and gains are primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities. Such differences will reverse over time and have no impact on the cash flows of the Group.

22. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2009 £m	2008 £m
Current tax		
UK Corporation Tax on profits of the period	5.0	9.2
Adjustment in respect of prior periods	(3.1)	0.6
Total current tax	1.9	9.8
Deferred tax	11.3	6.8
Tax charge on profit on ordinary activities	13.2	16.6

(b) Deferred tax charge for the year

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

	2009 £m	2008 £m
Accelerated tax depreciation	0.3	0.5
Retirement benefit obligations	1.4	1.4
Impairment and other provisions	(8.6)	23.4
Utilisation of tax losses	12.6	(17.3)
Other timing differences	5.2	0.9
Deferred tax charge for the year	10.9	8.9
Recognition of asset not previously recognised	0.4	(2.1)
Deferred tax charge (note 39)	11.3	6.8

The United Kingdom government 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 was 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 was accounted for in the year ended 30 September 2007.

(c) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom of 28% (2008: 29%). The differences are explained below:

	2009 £m	2008 £m
Profit on ordinary activities before taxation	54.3	53.7
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 29%)	15.2	15.6
Effects of:		
Results of associate	-	0.2
Permanent differences	0.6	0.9
Share based payments	-	1.0
Recognition of deferred tax asset not previously recognised	0.4	(2.1)
Other movements in unprovided deferred taxation	0.1	0.4
Prior year (credit) / charge	(3.1)	0.6
Tax charge for the year	13.2	16.6

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

The Company's profit after tax for the financial year amounted to £34.6m (2008: £1.2m). A separate income statement has not been prepared for the Company under the provisions of Section 408 of the Companies Act 2006.

24. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

		2009	2008
Profit for the year (£m)		4.1	37.1
Basic weighted average number of ordinary shares ranking for dividend during the year (million)		295.7	207.3
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (million)		5.2	0.5
Diluted weighted average number of ordinary shares ranking for dividend during the year (million)		300.9	207.8
Earnings per ordinary share	- basic	13.9p	17.9p
	- diluted	13.7p	17.9p

25. INTANGIBLE ASSETS

	Goodwill (note 26) £m	Computer software £m	Other intangible assets £m	Total £m
Cost				
At 1 October 2007	-	2.0	-	2.0
Additions	-	0.1	-	0.1
Disposals	-	-	-	-
At 30 September 2008	-	2.1	-	2.1
Acquisition (note 7)	7.6	0.1	8.1	15.8
Additions	-	0.1	-	0.1
Disposals	-	-	-	-
At 30 September 2009	7.6	2.3	8.1	18.0
Accumulated amortisation				
At 1 October 2007	-	1.4	-	1.4
Amortisation charge for the year	-	0.3	-	0.3
Disposals	-	-	-	-
At 30 September 2008	-	1.7	-	1.7
Amortisation charge for the year	-	0.3	0.4	0.7
Impairment of goodwill	6.0	-	-	6.0
Disposals	-	-	-	-
At 30 September 2009	6.0	2.0	0.4	8.4
Net book value				
At 30 September 2009	1.6	0.3	7.7	9.6
At 30 September 2008	-	0.4	-	0.4
At 30 September 2007	-	0.6	-	0.6

Other intangible assets comprise brands and the benefit of business networks recognised on the acquisition of subsidiary companies.

26. GOODWILL

During the year goodwill of £7.6m was recognised on the acquisition of TBMC (note 7). The cash generating unit to which this goodwill was attributed for impairment testing purposes was TBMC, which is the lowest level within the Group at which this goodwill is currently monitored, though the operations of the acquired entity will, in time, be integrated with those of the First Mortgage division.

This represents the only goodwill allocated to a cash generating unit at 30 September 2009. An impairment review undertaken at this date indicated a write down of £6.0m which has been charged to the profit and loss account.

The recoverable amount of TBMC used in this impairment testing is determined on a value in use basis using cash flow projections based on financial budgets approved by the Board covering a 4 year period. The discount rate applied to the cash flow projection is 7.80% and cash flows beyond the 4 year budget are extrapolated using a 2.40% growth rate, being the average long term growth rate in the United Kingdom economy over a twenty year period.

The key assumptions underlying the value in use calculation for the TBMC business are;

- Level of business activity, based on management expectations. Management have concluded that the levels of activity assumed for the purpose of this forecast are reasonable, based on past experience and the current economic environment.
- Discount rate, which is based on the Group's cost of capital.

The directors believe that no reasonably possible change in any of the key assumptions above would cause the carrying value of the unit to exceed its recoverable amount.

27. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Leasehold premises £m	Plant machinery £m	Total £m
Cost			
At 1 October 2007	19.3	20.4	39.7
Additions	0.1	1.9	2.0
Disposals	-	(3.6)	(3.6)
At 30 September 2008	19.4	18.7	38.1
Acquisition (note 7)	-	0.1	0.1
Additions	-	0.2	0.2
Disposals	-	(5.2)	(5.2)
At 30 September 2009	**19.4**	**13.8**	**33.2**
Accumulated depreciation			
At 1 October 2007	8.7	9.1	17.8
Charge for the year	1.0	3.0	4.0
On disposals	-	(2.2)	(2.2)
At 30 September 2008	9.7	9.9	19.6
Charge for the year	1.0	2.2	3.2
On disposals	-	(3.1)	(3.1)
At 30 September 2009	**10.7**	**9.0**	**19.7**
Net book value			
At 30 September 2009	**8.7**	**4.8**	**13.5**
At 30 September 2008	9.7	8.8	18.5
At 30 September 2007	10.6	11.3	21.9

The net book value of leasehold buildings includes £7.9m in respect of assets held under finance leases (2008: £8.7m).

(b) The Company

	Leasehold premises £m
Cost	
At 1 October 2007, 1 October 2008 and 30 September 2009	16.6
Accumulated depreciation	
At 1 October 2007	7.0
Charge for the year	0.9
At 30 September 2008	7.9
Charge for the year	0.8
At 30 September 2009	**8.7**
Net book value	
At 30 September 2009	**7.9**
At 30 September 2008	8.7
At 30 September 2007	9.6

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

28. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in Group companies £m	Loans to Group companies £m	Loans to ESOP Trusts £m	Total £m
At 1 October 2007	254.4	224.6	16.6	495.6
Loans advanced	-	361.0	1.0	362.0
Loans repaid	-	(56.7)	-	(56.7)
Investment in shares	-	-	-	-
Provision movements	(2.3)	(2.4)	(14.2)	(18.9)
At 1 October 2008	252.1	526.5	3.4	782.0
Acquisition (note 7)	-	15.4	-	15.4
Loans advanced	-	14.7	0.2	14.9
Loans repaid	-	(39.5)	-	(39.5)
Investment in shares	-	-	-	-
Provision movements	0.1	(3.6)	0.6	(2.9)
At 30 September 2009	**252.2**	**513.5**	**4.2**	**769.9**

During the year ended 30 September 2009 the Company received £23.2m in dividend income from its subsidiaries (2008: £16.5m) and £41.0m of interest on loans to Group companies (2008: £40.3m).

The principal operating subsidiaries, and the nature of the Group's interest in them, are shown in note 29.

29. PRINCIPAL OPERATING SUBSIDIARIES

The financial year end of all of the Group's subsidiary companies is 30 September, with the exception of The Business Mortgage Company Limited, the year end of which is 31 December. They are all registered in England and Wales, except Idem Jersey (No. 1) Limited, which is registered in the Bailiwick of Jersey, and they all operate in the United Kingdom.

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
Moorgate Servicing Limited	100%	Intermediate holding company
Redbrick Real Estate Services Limited	100%	Property services
Idem Capital Limited	100%	Asset investment
Idem Jersey (No. 1) Limited	100%	Asset investment
The Business Mortgage Company Limited	100%	Mortgage broker
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 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 Moorgate Servicing Limited		
Redbrick Survey and Valuation Limited	100%	Surveyors and property consulting
Moorgate Loan Servicing Limited	100%	Asset administration
Subsidiary of Idem Capital Limited		
Idem (No. 1) Limited	100%	Asset investment

The holdings shown above are those held by the Group. The shareholdings of the Company 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.

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 principal companies party to these arrangements are First Flexible No. 4 plc and First Flexible No. 5 plc. The principal activity of both of these companies is residential mortgages.

30. 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. As described in note 7, on 17 December 2008 this company became a subsidiary of the Group. The net assets position of the associate at 30 September 2008 and its results for the year then ended are shown below. Its results for the period from 1 October 2008 to its acquisition by the Group are shown in note 7.

	2008 £m
Total assets	16.0
Total liabilities	(16.6)
Total equity	(0.6)
Revenue	2.4
Costs	(4.8)
(Loss) / profit before tax	(2.4)
Taxation	0.7
(Loss) / profit after tax	(1.7)

During the period from 1 October 2008 to its acquisition by the Group the associate was charged £0.7m by the Group and the Company in interest (year ended 30 September 2008: £1.8m) and received £0.0m in commission income from Group companies (year ended 30 September 2008: £0.8m). The Group provided the associate with certain management services in this period.

(a) The Group

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

	2009 £m	2008 £m
At 1 October 2008	-	0.5
Additions	-	-
Share of result of associates	-	(0.5)
Dividends received	-	-
At 30 September 2009	-	-

30. INTERESST IN ASSOCIATE (continued)

(b) The Company

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

	2009 £m	2008 £m
At 1 October 2008	-	0.3
Provision	-	(0.3)
Transfer to investments in subsidiaries	-	-
At 30 September 2009	-	-

31. FINANCIAL ASSETS

	The Group		The Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Loans and receivables (note 32)	9,266.0	9,966.4	-	-
Finance lease receivables (note 33)	48.3	86.8	-	-
Loans to customers (note 34)	9,314.3	10,053.2	-	-
Fair value adjustments from portfolio hedging (note 36)	39.0	(12.0)	-	-
Loans to associate (note 37)	-	15.5	-	15.5
Derivative financial assets (note 38)	1,287.5	590.9	8.7	-
	10,640.8	10,647.6	8.7	15.5

32. LOANS AND RECEIVABLES

Loans and receivables at 30 September 2009 and 30 September 2008, which are all denominated and payable in sterling, were:

	2009 £m	2008 £m
First mortgage loans	8,764.3	9,418.7
Secured loans	467.4	487.4
Retail finance loans	9.0	25.6
Other unsecured loans	25.3	34.7
	9,266.0	9,966.4

First mortgages are secured on residential property within the United Kingdom; Secured loans enjoy second charges on residential property. Retail finance loans are unsecured. The estimated value of the security held against those loans above which are considered to be impaired or past due, representing the lesser of the outstanding balance and the estimated valuation of the property for each such account was:

	2009 £m	2008 £m
First mortgage loans	179.0	99.0
Secured loans	28.8	22.4
	207.8	121.4

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.

Under the terms of certain first mortgage products, the customer has the right to draw down further funds. At 30 September 2009 the Group's commitment in respect of such facilities was £48.6m (2008: £58.2m).

The loans shown above pledged as collateral for the liabilities described in note 54 at 30 September 2009 and 30 September 2008 were:

	First Mortgages £m	Consumer Finance £m	Total £m
30 September 2009			
In respect of:			
Asset backed loan notes	7,166.0	479.1	7,645.1
Warehouse facilities	1,566.4	-	1,566.4
Total pledged as collateral	8,732.4	479.1	9,211.5
Not pledged as collateral	31.9	22.6	54.5
	8,764.3	501.7	9,266.0
30 September 2008			
In respect of:			
Asset backed loan notes	7,713.9	520.2	8,234.1
Warehouse facilities	1,676.4	-	1,676.4
Total pledged as collateral	9,390.3	520.2	9,910.5
Not pledged as collateral	28.4	27.5	55.9
	9,418.7	547.7	9,966.4

33. FINANCE LEASE RECEIVABLES

The Group's finance lease receivables are car finance loans. The average contractual life of such loans is 56 months (2008: 56 months), but it is likely that a significant proportion of customers will choose to settle their obligations early.

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Amounts receivable under finance leases				
Within one year	**21.8**	31.7	**19.9**	28.0
Within two to five years	**28.8**	62.2	**26.3**	54.9
After five years	**1.7**	3.0	**1.5**	2.6
	52.3	96.9		
Less: future finance income	**(4.6)**	(11.4)		
Present value of lease obligations	**47.7**	85.5	**47.7**	85.5
Allowance for uncollectible amounts	**(2.4)**	(2.3)	**(2.4)**	(2.3)
Provision for recoveries	**3.0**	3.6	**3.0**	3.6
Present value of lease obligations	**48.3**	86.8	**48.3**	86.8

The Group considers that the fair value of its finance lease receivables is not significantly different to their carrying values. Although the Group has the benefit of the underlying vehicle as security on these loans, no account of this is taken in the allowance for uncollectible amounts shown above.

The loans shown above pledged as collateral for liabilities at 30 September 2009 and 30 September 2008 were:

	2009	2008
	£m	£m
In respect of:		
Asset backed loan notes	**45.2**	83.0
Warehouse facilities	**-**	-
Total pledged as collateral	**45.2**	83.0
Not pledged as collateral	**3.1**	3.8
	48.3	86.8

34. LOANS TO CUSTOMERS

The movements in the Group's investment in loans to customers in the year ended 30 September 2009 and the year ended 30 September 2008 were:

	2009 £m	2008 £m
Cost		
At 1 October 2008	**10,053.2**	11,034.9
Additions	**96.6**	1,147.4
Disposals	**-**	(4.3)
EIR adjustments	**23.0**	32.5
Other debits	**422.9**	691.2
Repayments and redemptions	**(1,281.4)**	(2,848.5)
At 30 September 2009	**9,314.3**	10,053.2

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

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

35. IMPAIRMENT PROVISIONS ON LOANS TO CUSTOMERS

The following amounts in respect of impairment provisions, net of allowances for recoveries of written off assets, have been deducted from the appropriate assets in the balance sheet.

	First Mortgages £m	Other loans and receivables £m	Finance leases £m	Total £m
At 1 October 2007	6.1	179.8	(1.8)	184.1
Portfolios sold	-	(15.1)	-	(15.1)
Charge for the year (note 19)	10.8	47.4	3.9	62.1
Amounts written off	0.3	(156.4)	(2.7)	(158.8)
Amounts recovered	(0.3)	(2.6)	(0.7)	(3.6)
At 30 September 2008	16.9	53.1	(1.3)	68.7
Portfolios sold	-	-	-	-
Charge for the year (note 19)	31.2	29.7	5.0	65.9
Amounts written off	(1.9)	(17.8)	(3.7)	(23.4)
Amounts recovered	(0.1)	(2.0)	(0.6)	(2.7)
At 30 September 2009	**46.1**	**63.0**	**(0.6)**	**108.5**

36. FAIR VALUE ADJUSTMENTS FROM PORTFOLIO HEDGING

The Group applies fair value hedge accounting in respect of portfolios of loan assets where the appropriate criteria are met. In these circumstances the change in the fair value of the hedged items attributable to the hedged risk is shown under this heading.

37. LOANS TO ASSOCIATE

The Group's associated undertaking became a subsidiary on 17 December 2008. After that date the loan balances were eliminated on consolidation. Loans to the associated undertaking at 30 September 2008 were 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.

	2008
Carrying value (£m)	15.5
Outstanding principal (£m)	16.2
Maximum contractual life (months)	108
Average contractual life (months)	76
Maximum remaining life (months)	88
Average remaining life (months)	56
Average margin charged above LIBOR	5.06%

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

38. 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.

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

Derivative financial assets and liabilities are included within Financial Assets (note 31) and Financial Liabilities (note 53) respectively.

(a) The Group

	2009 Notional Amount £m	2009 Assets £m	2009 Liabilities £m	2008 Notional Amount £m	2008 Assets £m	2008 Liabilities £m
Derivatives in accounting hedge relationships						
Fair value hedges						
Interest rate swaps	1,362.6	8.7	(45.6)	4,560.4	19.1	(6.3)
	1,362.6	8.7	(45.6)	4,560.4	19.1	(6.3)
Cash flow hedges						
Foreign exchange basis swaps	5,369.1	1,273.5	-	5,949.6	570.0	(18.1)
Interest rate swaps	13.1	-	(0.5)	20.0	0.1	(0.1)
	5,382.2	1,273.5	(0.5)	5,969.6	570.1	(18.2)
	6,744.8	1,282.2	(46.1)	10,530.0	589.2	(24.5)
Other derivatives						
Interest rate swaps	557.8	4.9	(10.5)	1,072.9	1.5	(1.2)
Interest rate caps	62.6	0.4	-	54.8	0.2	-
Interest rate floors	10.5	-	-	-	-	-
	630.9	5.3	(10.5)	1,127.7	1.7	(1.2)
Total recognised derivative assets / (liabilities)	7,375.7	1,287.5	(56.6)	11,657.7	590.9	(25.7)

At 30 September 2009 cash deposits of £174.4m had been pledged as collateral in respect of swaps shown above by the respective swap counterparties (2008: £nil) as described in note 6.

38. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

(b) The Company

	2009 Notional Amount £m	2009 Assets £m	2009 Liabilities £m	2008 Notional Amount £m	2008 Assets £m	2008 Liabilities £m
Derivatives in accounting hedge relationships						
Fair value hedges						
Interest rate swaps	**110.0**	**8.7**	**-**	120.0	-	(2.0)
	110.0	**8.7**	**-**	120.0	-	(2.0)
Total recognised derivative assets / (liabilities)	**110.0**	**8.7**	**-**	120.0	-	(2.0)

Of the interest rate swap agreements used for fair value hedging, swaps of a notional value of £110.0m (2008: £120.0m), recognised as assets of £8.7m (2008: liabilities of £2.0m) in both the Group and the Company relate to the hedging of the Corporate Bond borrowings. All other fair value hedging items relate to the hedging of the Group's loan assets on a portfolio basis.

39. DEFERRED TAX

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

	The Group 2009 £m	The Group 2008 £m	The Company 2009 £m	The Company 2008 £m
Net asset at 1 October 2008	**10.3**	16.1	**-**	-
Acquisition (note 7)	**0.8**	-	**-**	-
Income statement (charge) (note 22)	**(11.3)**	(6.8)	**-**	-
Charge to equity (note 50)	**3.0**	1.0	**-**	-
Net asset at 30 September 2009	**2.8**	10.3	**-**	-

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

	The Group 2009 £m	The Group 2008 £m	The Company 2009 £m	The Company 2008 £m
Accelerated tax depreciation	**1.7**	1.9	**-**	-
Retirement benefit obligations	**3.2**	2.4	**-**	-
Impairment and other provisions	**(17.0)**	(25.2)	**-**	-
Tax losses	**16.8**	28.6	**-**	-
Other timing differences	**(1.9)**	2.6	**-**	-
Net deferred tax asset	**2.8**	10.3	**-**	-

Temporary differences arising in connection with interests in the associated undertaking at 30 September 2008 were not significant.

40. CURRENT TAX ASSETS

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
UK Corporation Tax	**1.7**	-	-	-
	1.7	-	-	-

41. OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Current assets				
Amounts owed by Group companies	-	-	**88.5**	101.4
Amounts owed by associated undertakings	-	0.5	-	0.5
Accrued interest income	**0.5**	2.8	-	0.1
Prepayments	**1.4**	1.2	-	-
Other debtors	**3.6**	2.1	-	-
	5.5	6.6	**88.5**	102.0

Accrued interest income and other debtors fall within the definition of financial assets given in IAS 32.

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

42. CASH AND CASH EQUIVALENTS

Only 'Free Cash' is unrestrictedly available for the Group's general purposes. Cash received in respect of loan assets is not immediately available, due to the terms of the warehouse facilities and the securitisations. 'Cash and Cash Equivalents' also includes balances held by the Trustees of the Paragon Employee Share Ownership Plans which may only be used to invest in the shares of the Company, pursuant to the aims of those plans.

The total 'Cash and Cash Equivalents' balance may be analysed as shown below:

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Free cash	**84.0**	73.2	**78.8**	64.8
Securitisation cash	**394.7**	750.6	-	-
ESOP cash	**1.7**	2.5	-	-
	480.4	826.3	**78.8**	64.8

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

43. CALLED-UP SHARE CAPITAL

	2009 £m	2008 £m
Authorised:		
310,000,000 (2008: 310,000,000) ordinary shares of £1 each	**310.0**	310.0
Allotted and paid-up:		
299,159,605 (2008: 299,159,605) ordinary shares of £1 each	**299.1**	299.1

On 29 January 2008 the Company's ordinary shares of 10 pence each were consolidated into new ordinary shares of £1 each on a one for ten basis.

On 21 February 2008 the Company completed a rights issue in which new ordinary shares of £1 each were offered to the holders of the existing ordinary shares of 10 pence each on a five for two basis. This rights issue was fully subscribed, raising £287.0m. Costs of £7.4m have been set against the share premium account (note 45). As a result of the rights issue the Group's employee share ownership trusts received a cash inflow of £0.1m. The net cash inflow to the Group as a result of the rights issue was therefore £279.7m (note 62).

Movements in the issued share capital in the year were:

	2009 Number	2008 Number
Ordinary shares of £1 each		
At 1 October 2008	**299,159,605**	-
Share consolidation	-	12,149,325
Rights issue	-	287,010,280
At 30 September 2009	**299,159,605**	299,159,605
Ordinary shares of 10p each		
At 1 October 2008	-	121,493,242
Shares issued in respect of share consolidation	-	8
Share consolidation	-	(121,493,250)
At 30 September 2009	-	-

44. RESERVES

	The Group		The Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Share premium account (note 45)	**64.1**	64.1	**64.1**	64.1
Merger reserve (note 46)	**(70.2)**	(70.2)	**(23.7)**	(23.7)
Cash flow hedging reserve (note 47)	**1.2**	(0.1)	-	-
Profit and loss account (note 48)	**413.3**	384.9	**194.7**	168.1
	408.4	378.7	**235.1**	208.5

45. SHARE PREMIUM ACCOUNT

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Balance at 1 October 2008	**64.1**	71.5	**64.1**	71.5
Costs of rights issue	**-**	(7.4)	**-**	(7.4)
Share options exercised	**-**	-	**-**	-
Balance at 30 September 2009	**64.1**	64.1	**64.1**	64.1

46. MERGER RESERVE

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Balance at 1 October 2008	**(70.2)**	(70.2)	**(23.7)**	(23.7)
Balance at 30 September 2009	**(70.2)**	(70.2)	**(23.7)**	(23.7)

The merger reserve arose, due to the provisions of UK company law at the time, on a group restructuring on 12 May 1989 when the Company became the parent entity of the Group

47. CASH FLOW HEDGING RESERVE

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Balance at 1 October 2008	**(0.1)**	(2.4)	**-**	-
Movement in fair value of hedging derivatives	**1.9**	3.3	**-**	-
Deferred tax thereon (note 50)	**(0.6)**	(1.0)	**-**	-
Balance at 30 September 2009	**1.2**	(0.1)	**-**	-

The cash flows to which these amounts relate are expected to take place, and to affect profit, over the next 35 years (2008: 36 years). The majority of the balance relates to the cross currency basis swaps described in note 6. Cash flows in respect of these swaps will continue for as long as the related notes remain outstanding.

Foreign exchange losses of £719.1m on asset backed loan notes denominated in US dollars and euros (2008: losses of £915.5m) have been taken to the cash flow hedging reserve together with equal and opposite movements on the cross currency basis swaps used to hedge these liabilities.

48. PROFIT AND LOSS ACCOUNT

	The Group		The Company	
	2009	2008	2009	2008
	£m	£m	£m	£m
Balance at 1 October 2008	384.9	359.1	168.1	169.2
Dividends paid (note 49)	(9.2)	(2.9)	(9.2)	(2.9)
Share options exercised (note 51)	(0.6)	(0.6)	-	-
Charge for share based remuneration (note 15)	1.2	0.6	1.2	0.6
Tax on share based remuneration (note 50)	1.4	(0.9)	-	-
Actuarial (loss) on retirement obligation (note 56)	(5.5)	(7.5)	-	-
Profit for the year	41.1	37.1	34.6	1.2
Balance at 30 September 2009	413.3	384.9	194.7	168.1

49. EQUITY DIVIDEND

Amounts recognised as distributions to equity shareholders in the period:

	2009	2008	2009	2008
	Per share	Per share	£m	£m
Equity dividends on ordinary shares				
Final dividend for the year ended 30 September 2008	2.0p	-	5.9	-
Interim dividend for the year ended 30 September 2009	1.1p	1.0p	3.3	2.9
	3.1p	1.0p	9.2	2.9

Amounts paid and proposed in respect of the year:

	2009	2008	2009	2008
	Per share	Per share	£m	£m
Interim dividend for the year ended 30 September 2009	1.1p	1.0p	3.3	2.9
Proposed final dividend for the year ended 30 September 2009	2.2p	2.0p	6.5	5.9
	3.3p	3.0p	9.8	8.8

Dividends of £0.0m (2008: £0.0m) were paid by the Company in respect of shares held by ESOP trusts on which dividends had not been waived.

The proposed final dividend for the year ended 30 September 2009 will be paid on 15 February 2010, subject to approval at the Annual General Meeting, with a record date of 15 January 2010. The dividend will be recognised in the accounts when it is paid.

50. TAX CHARGED TO EQUITY

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
On actuarial (loss) on pension scheme (note 56)	**2.2**	2.9	**-**	-
On gains on cash flow hedges (note 47)	**(0.6)**	(1.0)	**-**	-
Tax on items taken to equity	**1.6**	1.9	**-**	-
On share based payment	**1.4**	(0.9)	**-**	-
Total tax credited to equity	**3.0**	1.0	**-**	-
Of which				
Current tax	**-**	-	**-**	-
Deferred tax (note 39)	**3.0**	1.0	**-**	-
	3.0	1.0	**-**	-

51. TRANSACTIONS IN SHARES

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Awards from ESOP schemes				
Proceeds	**-**	-	**-**	-
Cost of shares transferred (note 52)	**(0.6)**	(0.6)	**-**	-
(Deficit) on exercise (note 48)	**(0.6)**	(0.6)	**-**	-
Shares issued				
Nominal value (note 52)	**-**	-	**-**	-
Premium on issue (note 45)	**-**	-	**-**	-
Proceeds of issue	**-**	-	**-**	-
(Deficit) on transactions in own shares	**(0.6)**	(0.6)	**-**	-

52. OWN SHARES

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Treasury shares				
At 1 October 2008	**39.5**	39.5	**39.5**	39.5
Shares purchased	**-**	-	**-**	-
At 30 September 2009	**39.5**	39.5	**39.5**	39.5
ESOP shares				
At 1 October 2008	**16.8**	17.3	**-**	-
Shares purchased	**1.0**	0.2	**-**	-
Effect of rights issue (note 43)	**-**	(0.1)	**-**	-
Options exercised (note 51)	**(0.6)**	(0.6)	**-**	-
At 30 September 2009	**17.2**	16.8	**-**	-
Balance at 30 September 2009	**56.7**	56.3	**39.5**	39.5

At 30 September 2009 the number of the Company's own shares held in treasury was 668,900 (2008: 668,900). These shares had a nominal value of £668,900 (2008: £668,900). 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 2009, the trusts held 3,405,452 ordinary shares (2008: 1,431,502) with a nominal value of £3,405,452 (2008: £1,431,502) and a market value of £5,135,422 (2008: £930,476). Options, or other share-based awards, were outstanding against 3,405,452 of these shares at 30 September 2009 (2008: 1,431,502). The dividends on 2,860,640 of these shares have been waived (2008: 886,690).

53. FINANCIAL LIABILITIES

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Current liabilities				
Finance lease liability	**0.8**	0.8	**0.8**	0.8
Bank loans and overdrafts	**0.3**	0.1	**-**	-
	1.1	0.9	**0.8**	0.8
Non-current liabilities				
Asset backed loan notes	**8,819.2**	9,028.7	**-**	-
Corporate bond	**116.8**	117.9	**126.8**	117.9
Finance lease liability	**11.8**	12.6	**11.8**	12.6
Bank loans and overdrafts	**1,453.1**	1,606.6	**-**	-
Derivative financial instruments	**56.6**	25.7	**-**	2.0
	10,457.5	10,791.5	**138.6**	132.5

A maturity analysis of the above borrowings and further details of asset backed loan notes and bank loans are given in note 54.

Further details of finance lease liabilities are given in note 55 and further details of derivative financial instruments are given in note 38.

54. BORROWINGS

All borrowings shown as falling due after more than one year fall due after more than five years.

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 2009 comprised £8,225.9m (2008: £8,241.6m) in respect of mortgage backed notes and £593.3m (2008: £787.1m) in respect of notes backed by other loan assets. The details of the assets backing these securities are given in notes 32 and 33.

A more detailed description of the securitisation structure under which these notes are issued is given in note 6.

54. BORROWINGS (continued)

Notes in issue at 30 September 2009 and 30 September 2008 were:

Issuer	Maturity date	Call date	Principal Outstanding 2009	Principal Outstanding 2008	Average Interest Margin 2009	Average Interest Margin 2008
			£m	£m	%	%
Sterling notes						
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**91.0**	96.5	**0.21**	0.21
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	**258.9**	278.8	**0.31**	0.30
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**154.8**	170.7	**0.19**	0.19
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	**99.2**	106.8	**0.14**	0.14
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**137.8**	146.9	**0.18**	0.18
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**153.7**	169.3	**0.18**	0.18
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**167.6**	179.4	**0.16**	0.15
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**195.9**	208.8	**0.14**	0.14
First Flexible No. 4 PLC	01/07/36	01/07/08	**94.8**	106.6	**1.08**	1.03
First Flexible No. 5 PLC	01/06/34	01/07/09	**105.5**	121.7	**0.97**	0.49
First Flexible No. 6 PLC	01/12/35	01/03/08	**86.9**	95.6	**1.27**	0.62
First Flexible No. 7 PLC	15/09/33	15/03/11	**131.4**	161.6	**0.13**	0.13
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	**156.0**	204.5	**0.39**	0.34
Paragon Secured Finance (No. 1) PLC	15/11/35	15/11/08	**191.5**	300.0	**0.43**	0.35
US dollar notes			**$m**	$m	%	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**265.4**	280.0	**0.37**	0.37
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**25.1**	27.9	**0.18**	0.18
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	**240.4**	342.7	**0.09**	0.09
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	**545.3**	598.5	**0.10**	0.10
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**1,196.8**	1,310.2	**0.12**	0.12
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**1,253.3**	1,483.7	**0.11**	0.11
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**1,455.0**	1,633.4	**0.10**	0.10
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**981.8**	1,052.6	**0.09**	0.09
First Flexible No. 6 PLC	01/12/35	01/03/08	**13.4**	15.8	**0.56**	0.28
Euro notes			**€m**	€m	%	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	**269.4**	284.5	**0.33**	0.33
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	**338.0**	367.6	**0.24**	0.24
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	**244.0**	260.3	**0.29**	0.28
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	**292.2**	303.4	**0.25**	0.25
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	**393.9**	409.2	**0.25**	0.25
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	**378.4**	417.6	**0.19**	0.19
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	**412.7**	435.8	**0.21**	0.20
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	**289.9**	296.7	**0.33**	0.32
First Flexible No. 6 PLC	01/12/35	01/03/08	**48.9**	55.3	**1.03**	0.50
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	**271.9**	358.0	**0.35**	0.32

During the year, Group companies issued £nil (2008: £nil) of mortgage backed floating rate notes at par and £nil (2008: £nil) of asset backed floating rate notes at par.

(b) Bank borrowings

Prior to the recent difficulties in the capital markets, assets were typically securitised within twelve months of origination. New loans were funded by a bank facility (the 'warehouse facility'). This was drawn down to fund completions and repaid when assets are securitised. More information on this process is given in note 6.

This facility was available for further drawings until 29 February 2008 at which point it converted automatically to a term loan and no further drawings were allowed. 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 (No. 1) Limited and Paragon Personal Finance (No. 1) Limited and although its final repayment date is 28 February 2050 it is likely that substantial repayments will be made within the next five years.

The principal amount outstanding on the facility at 30 September 2009, which was also the maximum available amount, was £1,453.1m (2008: £1,606.6m). The carrying value of the borrowing in the balance sheet was £1,453.1m (2008: £1,606.6m).

Details of assets held within the warehouse are given in notes 32 and 33. As with the asset backed loan notes, repayments of this 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 £79.8m (2008: £79.8m) of sterling revolving credit facilities to fund, where necessary, the purchase of mortgage redraws in certain subsidiary companies. At 30 September 2009 £nil (2008: £nil) had been drawn down under these facilities.

The Company and Paragon Finance had a committed corporate syndicated sterling bank facility used to provide working capital for the Group. The outstanding amount on this facility was repaid on 27 February 2008. The facility was secured by a fixed and floating charge over the assets of the Company, Paragon Finance PLC and certain other Group companies.

Interest on the bank facilities is payable monthly in sterling at 0.675% above LIBOR (2008: 0.675% above LIBOR). The weighted average margin above LIBOR on bank borrowings at 30 September 2009 was 0.675% (2008: 0. 675%).

(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 2009 £126.8m (2008: £117.9m) was included within the financial liabilities of the Company in respect of these bonds.

Notes to the principal value of £10.0m (2008: £nil) are held by other group companies and hence the value included within the financial liabilities of the Group in respect of these Notes is £116.8m (2008: £117.9m).

55. 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	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Amounts payable under finance leases				
Within one year	**1.9**	2.0	**0.8**	0.8
Within two to five years	**8.0**	7.8	**4.3**	3.8
After five years	**9.1**	11.2	**7.5**	8.8
	19.0	21.0		
Less: future finance charges	**(6.4)**	(7.6)		
Present value of lease obligations	**12.6**	13.4	**12.6**	13.4

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% (2008: 9.13%)

At 30 September 2009 the minimum amount of payments expected to be received in respect of non-cancellable sub-leases in respect of this building was £2,100,000 (2008: £3,900,000).

56. RETIREMENT BENEFIT OBLIGATIONS

The Group operates a funded defined benefit pension scheme in the UK (the 'Plan'). A full actuarial valuation was carried out at 31 March 2007 and updated to 30 September 2009 by a qualified independent actuary.

The liabilities of the Plan 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 liability 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 2009	30 September 2008
In determining net pension cost for the year		
Discount rate	6.50%	6.10%
Expected long term rate of return on scheme assets	7.70%	7.20%
Rate of compensation increase	4.35%	4.10%
Rate of increase of pensions		
in payment (accrued before 6 April 2006)	3.35%	3.10%
in payment (accrued after 5 April 2006)	2.50%	2.50%
in deferment	3.35%	3.10%
In determining benefit obligations		
Discount rate	5.70%	6.50%
Rate of compensation increase	4.20%	4.35%
Rate of increase of pensions		
in payment (accrued before 6 April 2006)	3.20%	3.35%
in payment (accrued after 5 April 2006)	2.50%	2.50%
in deferment	3.20%	3.35%
Further life expectancy at age 60		
Pensioner (male)	30	30
Pensioner (female)	33	33
Non-retired member (male)	31	31
Non-retired member (female)	35	35

56. RETIREMENT BENEFIT OBLIGATIONS (continued)

The assets in the Plan at 30 September 2009 and 30 September 2008 and the expected rates of return were:

	At 30 September 2009			At 30 September 2008		
	Long term rate of return expected	Value £m	Asset Allocation	Long term rate of return expected	Value £m	Asset Allocation
Equities	7.60%	33.0	63.5%	8.20%	31.5	71.8%
Bonds	4.80%	13.7	26.3%	6.25%	12.1	27.6%
Other	4.80%	5.3	10.2%	6.25%	0.3	0.6%
Total market value of assets	6.90%	52.0		7.70%	43.9	
Present value of scheme liabilities		(63.5)			(48.9)	
(Deficit) in the scheme		(11.5)			(5.0)	

The Plan assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees of the Plan are required to act in the best interests of the Plan's beneficiaries. The appointment of trustees to the Plan 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 Plan.

At 30 September 2009 the Plan assets were invested in a diversified portfolio that consisted primarily of equity and gilt investments. The majority of the equities held by the Plan are in developed markets. The target asset allocations for the year ending 30 September 2010 are 75% equities and 25% bonds.

In conjunction with the trustees, the Group has continued to conduct asset-liability reviews of the Plan. 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 Plan. The results of the studies 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 investment strategy of the Plan.

Following the 2007 actuarial valuation, the trustees put in place a recovery plan. The trustees' recovery plan aims to meet the statutory funding objective within ten years and nine months from the date of valuation, i.e. by 1 January 2018.

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 expected return for each asset class was then weighted based on the asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

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

	2009 £m	2008 £m
At 1 October 2008	43.9	49.2
Movement in year		
Contributions by the Group	2.3	1.9
Contributions by scheme members	0.3	0.4
Benefits paid	(0.8)	(0.8)
Expected return on scheme assets	3.5	3.6
Actuarial gain / (loss)	2.8	(10.4)
At 30 September 2009	52.0	43.9

The actual rate of return on scheme assets in the year ended 30 September 2009 was 14.5% (2008: negative rate of return of 13.7%).

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

	2009 £m	2008 £m
At 1 October 2008	48.9	45.0
Movement in year		
Current service cost	1.4	1.5
Past service costs	-	-
Contributions by scheme members	0.3	0.4
Benefits paid	(0.8)	(0.8)
Finance cost	3.2	2.8
Actuarial loss	10.5	-
At 30 September 2009	63.5	48.9

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 31 March 2007, when the valuation on that basis was £76.1m.

The sensitivity of the valuation of the scheme liabilities to the principal assumptions disclosed above at 30 September 2009 is as follows:

Assumption	Increase in assumption	Impact on scheme liabilities
Discount rate	0.1% p.a.	Decrease by 2.6%
Rate of inflation *	0.1% p.a.	Increase by 2.4%
Rate of salary growth	0.1% p.a.	Increase by 0.8%
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:

	2009 Years	2008 Years
Category of member		
Active members	28	28
Deferred pensioners	27	27
Current pensioners	14	14
All members	27	27

The agreed rate of employer contributions was 24.5% of gross salaries for participating employees until 30 June 2008 and 27.4% of gross salaries for participating employees thereafter. Since 1 July 2008 an additional contribution of £500,000 per annum has been paid by monthly instalments.

56. RETIREMENT BENEFIT OBLIGATIONS (continued)

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

	2009 £m	2008 £m
Current service cost	1.4	1.5
Past service cost	-	-
Included within operating expenses (note 15)	1.4	1.5
Expected return on scheme assets (note 10)	(3.5)	(3.6)
Funding cost of scheme liability (note 11)	3.2	2.8
Total expense recognised in profit	1.1	0.7

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

	2009 £m	2008 £m
Gain / (loss) on scheme assets	2.8	(10.4)
(Loss) on scheme liabilities	(10.5)	-
Total actuarial (loss)	(7.7)	(10.4)
Tax thereon (note 50)	2.2	2.9
Net actuarial (loss) (note 48)	(5.5)	(7.5)

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 £27.7m (2008: £19.9m):

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets	52.0	43.9	49.2	43.9	24.5
Present value of scheme obligations	(63.5)	(48.9)	(45.0)	(43.6)	(39.1)
(Deficit) / surplus in the scheme	(11.5)	(5.0)	4.2	0.3	(14.6)
Experience adjustments on scheme assets:					
Amount (£m)	2.8	(10.4)	0.9	0.4	2.6
Percentage of scheme assets	5.3%	(23.8)%	1.8%	1.0%	11%
Experience adjustments on scheme liabilities:					
Amount (£m)	-	0.2	2.5	-	-
Percentage of scheme liabilities	0.0%	0.4%	5.6%	0.0%	0.0%

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 2009 were £0.1m (2008: £0.1m).

57. CURRENT TAX LIABILITIES

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
UK Corporation Tax	**-**	6.3	**1.0**	1.0
	-	6.3	**1.0**	1.0

58. PROVISIONS

	2009	2008
	£m	£m
Provision at 1 October 2008	**0.5**	2.0
Current year charge (note 19)	**0.3**	0.1
Utilised in the year	**(0.3)**	(1.1)
Released in the year	**-**	(0.5)
Provision at 30 September 2009	**0.5**	0.5
Included in current liabilities	**0.5**	0.3
Included in non-current liabilities	**-**	0.2
	0.5	0.5

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

59. OTHER LIABILITIES

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Current liabilities				
Amounts owed to Group companies	**-**	-	**313.7**	365.5
Accrued interest	**17.8**	68.2	**3.8**	3.8
Deferred income	**0.9**	1.7	**0.1**	0.1
Other accruals	**10.9**	9.0	**-**	-
Other taxation and social security	**0.8**	0.5	**-**	-
	30.4	79.4	**317.6**	369.4
Non-current liabilities				
Deferred income	**1.9**	2.1	**1.1**	1.2
Other accruals	**0.6**	2.5	**-**	-
	2.5	4.6	**1.1**	1.2

Accrued interest and other accruals fall within the definition of 'other financial liabilities' set out in IAS 32 and IAS 39.

60. NET CASH FLOW FROM OPERATING ACTIVITIES

(a) The Group

	2009 £m	2008 £m
Profit before tax	54.3	53.7
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	3.2	4.0
Amortisation of intangible assets	0.7	0.3
Impairment of goodwill	6.0	-
Share of result of associated undertakings	-	0.5
Profit on repurchase of debt	(18.4)	-
Foreign exchange movement on borrowings	719.1	915.5
Other non-cash movements on borrowings	12.3	11.0
Impairment losses on loans to customers	66.2	62.2
Charge for share based remuneration	1.2	0.6
Loss on disposal of property, plant and equipment	0.5	0.1
Financing cash flows included in operating profit	-	6.2
Net (increase) / decrease in operating assets:		
Loans to customers	673.0	919.6
Loans to associates	0.1	(0.1)
Derivative financial instruments	(696.6)	(498.9)
Fair value of portfolio hedges	(51.0)	(10.8)
Other receivables	(0.1)	4.3
Net (decrease) / increase in operating liabilities:		
Derivative financial instruments	30.9	(400.4)
Other liabilities	(52.7)	(41.3)
Cash generated by operations	748.7	1,026.5
Income taxes paid	(9.9)	(6.6)
	738.8	1,019.9

(b) The Company

	2009 £m	2008 £m
Profit before tax	36.3	3.2
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	0.8	0.9
Non-cash movements on borrowings	8.9	2.1
Impairment losses on investments in subsidiaries	2.9	18.9
Impairment losses on investments in associate	-	0.3
Charge for share based remuneration	1.2	0.6
Net (increase) / decrease in operating assets:		
Loans to associates	0.1	(0.1)
Other receivables	13.5	(16.4)
Derivative financial instruments	(8.7)	-
Net increase / (decrease) in operating liabilities:		
Derivative financial instruments	(2.0)	(2.0)
Other liabilities	(51.9)	88.4
Cash generated by operations	1.1	95.9
Income taxes paid	(1.7)	(2.0)
	(0.6)	93.9

61. NET CASH FLOW FROM INVESTING ACTIVITIES

	The Group		The Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Proceeds on disposal of property, plant and equipment	1.6	1.3	-	-
Purchases of property, plant and equipment	(0.2)	(2.0)	-	-
Purchases of intangible assets	(0.1)	(0.1)	-	-
Investment in subsidiary undertakings	-	-	24.6	(305.3)
Net cash generated / (utilised) by investing activities	1.3	(0.8)	24.6	(305.3)

62. NET CASH FLOW FROM FINANCING ACTIVITIES

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Net proceeds of rights issue	-	279.7	-	279.6
Dividends paid	**(9.2)**	(2.9)	**(9.2)**	(2.9)
Repayment of asset backed floating rate notes	**(902.4)**	(1,784.6)	-	-
Repurchase of debt (note 20)	**(19.3)**	-	-	-
Capital element of finance lease payments	**(0.8)**	(0.5)	**(0.8)**	(0.5)
Movement on bank facilities	**(153.5)**	394.6	-	-
Standby underwriting fee	-	(4.1)	-	-
Exceptional professional costs (note 14)	-	(2.1)	-	-
Purchase of shares	**(1.0)**	(0.2)	-	-
Net cash (utilised) / generated by financing activities	**(1,086.2)**	(1,120.1)	**(10.0)**	276.2

63. PURCHASE OF SUBSIDIARY UNDERTAKINGS

The fair values of the assets acquired and the liabilities assumed as a result of the acquisition described in note 7 were as follows:

	The Group	
	2009	2008
	£m	£m
Intangible assets	**8.2**	-
Tangible fixed assets	**0.1**	-
Deferred tax assets	**0.8**	-
Other receivables	**0.2**	-
Other liabilities	**(0.1)**	-
	9.2	-
Liabilities owed to Group	**(16.8)**	-
	(7.6)	-
Goodwill	**7.6**	-
	-	-
Total cash consideration	**-**	-
Less: cash acquired	**-**	-
Cash flow on acquisition less cash acquired	**-**	-

64. OPERATING LEASE ARRANGEMENTS

(a) As lessee

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Minimum lease payments under operating leases recognised in income for the year	**4.1**	3.4	**0.3**	0.3

At 30 September 2009 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Amounts falling due:				
Within one year	**3.3**	3.4	**0.3**	0.3
Between two and five years	**10.0**	10.9	**1.0**	1.0
After more than five years	**5.9**	7.5	**1.2**	1.4
	19.2	21.8	**2.5**	2.7

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 55. The average term of the current leases is 15 years (2008: 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 2009 was:

	The Group		The Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Rental income	**2.1**	1.9	**1.8**	1.8

At 30 September 2009 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	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Amounts receivable:				
Within one year	**1.5**	2.2	**1.0**	1.8
Between two and five years	**2.3**	3.5	**1.1**	2.1
After more than five years	**0.2**	0.5	**-**	-
	4.0	6.2	**2.1**	3.9

65. CAPITAL COMMITMENTS

There were no capital commitments (2008: £nil) contracted but not provided for.

66. RELATED PARTY TRANSACTIONS

(a) The Group

The Group had no transactions with related parties other than the key management compensation disclosed in note 16 and the transactions with its associated undertaking, up to the time it joined the Group, disclosed in notes 30, 37 and 41.

(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 17 to employees of subsidiary undertakings.

Details of the Company's investments in subsidiaries and the income derived from them are shown in notes 28 and 29.

Outstanding current account balances with subsidiaries are shown in notes 41 and 59.

During the year the Company incurred interest costs of £18.7m in respect of borrowings from its subsidiaries (2008: £27.8m).

The Company had made investments in an associated undertaking, which became a subsidiary of the Group during the year, and had made loans to this associate. Details of equity investments in the associate are given in note 30, details of loans to the associate are given in note 37 and the accrued interest payable by the associate, up to the point at which it joined the Group, is shown in note 41.

Appendices to the Annual Report

For the year ended 30 September 2009

A. COST:INCOME RATIO

Underlying cost:income ratio is derived as follows:

	2009 £m	2008 £m
Operating expenses	39.3	45.6
Less : Exceptional operating expenses (note 14)	-	(7.8)
Cost	39.3	37.8
Total operating income	150.8	166.9
Cost / Income	26.1%	22.6%

B. UNDERLYING PROFIT

Underlying profit is determined by excluding from the operating result certain costs of a one off nature, described in note 14, which do not reflect the underlying business performance of the Group, gains on the repurchase of debt which result from the illiquidity of the credit markets rather than the fair value of the security and fair value accounting adjustments arising from the Group's hedging arrangements.

		2009 £m	2008 £m
First Mortgages			
Profit before tax for the period (note 8)		51.0	50.8
Less:	Exceptional operating expenses	-	6.3
	Gain on debt repurchase	(15.9)	-
	Impairment of goodwill	6.0	-
	Fair value losses / (gains)	3.6	5.2
		44.7	62.3
Consumer Finance			
Profit before tax for the period (note 8)		3.3	2.9
Less:	Exceptional operating expenses	-	1.5
	Gain on debt repurchase	(2.5)	-
	Impairment of goodwill	-	-
	Fair value losses / (gains)	(0.2)	0.2
		0.6	4.6
Total			
Profit before tax for the period (note 8)		54.3	53.7
Less:	Exceptional operating expenses	-	7.8
	Gain on debt repurchase	(18.4)	-
	Impairment of goodwill	6.0	-
	Fair value losses / (gains)	3.4	5.4
		45.3	66.9

C. NET ASSET VALUE PER SHARE

Net asset value per share is derived as follows:

	2009	2008
Total equity (£m)	650.8	621.5
Outstanding issued shares (note 43) (m)	299.2	299.2
Treasury shares (note 52) (m)	(0.7)	(0.7)
Shares held by ESOP schemes (note 52) (m)	(3.4)	(1.4)
	295.1	297.1
Net asset value per £1 ordinary share	221p	209p

D. 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
Underlying profit before taxation	71.7	71.8
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	77.8p	78.0p
	- diluted	74.6p	74.8p
Dividend per 10p ordinary share		12.6p	12.6p

Notice of Annual General Meeting

THIS NOTICE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to any aspect of the proposals referred to in this notice or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other professional adviser.

To all shareholders

NOTICE IS HEREBY GIVEN that the twenty-first Annual General Meeting of The Paragon Group of Companies PLC will be held at the offices of RBS Hoare Govett Limited at 250 Bishopsgate, London, EC2M 4AA on 11 February 2010 at 10.00 a.m. for the following purposes:

As ordinary business

1 To receive and consider the Company's Accounts for the year ended 30 September 2009 and the Reports of the Directors and the Auditors.

2 To consider and adopt the Report of the Board to the Shareholders on Directors' Remuneration.

3 To declare a dividend.

4 To re-appoint as a director Mr T C Eccles (who retires under Article 77(b)).

5 To re-appoint as a director Mr A K Fletcher (who retires under Article 77(a)).

6 To re-appoint Deloitte LLP as Auditors and to authorise the directors to fix their remuneration.

As special business

To consider and, if thought fit, to pass resolution 7 as an ordinary resolution and resolutions 8, 9, 10 and 11 as special resolutions:

Ordinary Resolutions

7 'THAT the Board be and it is hereby generally and unconditionally authorised (in substitution for all subsisting authorities to the extent unused) to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £99,400,000 PROVIDED THAT this authority shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company after the passing of this resolution and the close of business on 10 May 2011 (unless previously revoked or varied by the Company in general meeting) save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted after such expiry and the Board may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.'

Special Resolutions

8 'THAT, subject to the passing of resolution 7, the Board be and it is hereby empowered pursuant to Section 571 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 of the said Act) for cash pursuant to the authority conferred by resolution 7 and/or where allotment is treated as an allotment of equity securities under section 560(3) as if sub-section (1) of Section 561 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to:

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

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £14,900,000

and shall expire upon the renewal of this power or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, the close of business on 10 May 2011), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.'

9 'THAT the Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 ('the Act') to make one or more market purchases (within the meaning of Section 693(4) of the Act) on the London Stock Exchange PLC of ordinary shares of £1 each in the share capital of the Company ('Ordinary Shares') provided that:-

(a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 29,900,000 (representing approximately 10 per cent of the Company's issued ordinary share capital excluding treasury shares);

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

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

(d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the close of business on 10 August 2011; and

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

10 'THAT a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.'

11 'THAT the Articles of Association of the Company shall be amended with effect from the conclusion of the Meeting by making the alterations marked on the print of the Articles of Association of the Company produced to the Meeting and initialled by the Chairman for the purposes of identification.'

By order of the Board
JOHN G GEMMELL
Company Secretary

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

24 November 2009

Registered in England No. 2336032

A member entitled to attend and vote at this meeting may appoint another person as their proxy to exercise all or any of their rights to attend and to speak and vote at a meeting of the Company. A member may appoint more than one proxy in relation to the Annual General Meeting provided that the member specifies the number of shares in relation to which each proxy is appointed and each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not also be a member of the Company. A proxy form is enclosed for use in connection with the meeting. Proxy forms and any power of attorney or other written authority under which they are executed (or an office or notarially certified copy thereof) should be lodged with the Registrar of the Company at the address shown on the reverse of the proxy form by 10.00 a.m. on Tuesday 9 February 2010. The appointment of a proxy or any CREST Proxy Instruction (as described below) will not preclude a shareholder from attending and voting at the meeting.

The proxy appointment rights described above do not apply to any person nominated to enjoy information rights under section 146 of the Companies Act 2006 by a member who holds shares on behalf of that person.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the register of members of the Company at 10.00 a.m. on Tuesday 9 February 2010 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

As at 23 November 2009 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 299,159,605 ordinary shares, carrying one vote each, of which 668,900 were held in treasury. Therefore, the total voting rights in the Company as at 23 November 2009 are 298,490,705.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID number 3RA50) by 10.00 a.m. on Tuesday 9 February 2010. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at www.paragon-group.co.uk.

Under section 338 and section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than Tuesday 29 December 2009, being the date 6 clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

The register of directors' interests, copies of directors' service contracts and letters of appointment of non executive directors will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the Registered Office of the Company from the date of this notice until the date of the meeting and at the place of the meeting from 9.30 a.m. on the date of such meeting until the conclusion thereof. A copy of the proposed new Articles of Association and a copy of the existing Articles of Association marked to show the changes being proposed in Resolution 11 will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY from the date of this notice until the date of the meeting and at the place of the meeting from 9.30 a.m. on the date of such meeting until the conclusion thereof. The Report and Accounts have been sent to the Company's shareholders.

Biographical details of current directors are provided on pages 12 and 13.

This Financial Report is printed on environmentally friendly paper.

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