

Annual Report & Accounts 2013

The Paragon Group of Companies PLC



paragon 

Contents

A. Strategic report		
	A1 Chairman's statement	6
	A2 Business model and strategy	8
	A2.1 The Group's business	8
	A2.2 Principal risks and uncertainties	9
	A3 Chief Executive's review	11
	A3.1 Financial review	11
	A3.2 Business review	13
	A3.3 Funding review	15
	A4 Going concern	17
	A5 Corporate social responsibility	18
	A5.1 Employees	18
	A5.2 Environmental policy	21
	A5.3 Social, community and human rights	23
	A6 Approval of strategic report	26
<hr/>		
B. Corporate governance		
	B1 Board of directors	28
	B2 Corporate governance	30
	B2.1 Audit and Compliance Committee	34
	B2.2 Nomination Committee	36
	B3 Directors' remuneration report	38
	B3.1 Statement by the Chairman	38
	B3.2 Policy report	39
	B3.3 Annual report on remuneration	51
	B4 Directors' report	69
	B5 Statement of directors' responsibilities	72
<hr/>		
C. Independent auditor's report		74
<hr/>		
D. The accounts		
	D1 The accounts	79
	D1.1 Consolidated income statement	81
	D1.2 Consolidated statement of comprehensive income	81
	D1.3 Consolidated balance sheet	82
	D1.4 Company balance sheet	83
	D1.5 Consolidated cash flow statement	84
	D1.6 Company cash flow statement	84
	D1.7 Statement of movements in equity	85
	D2 Notes to the accounts	86
<hr/>		
E. Appendices to the annual report		148
<hr/>		
	Contacts	150
<hr/>		

CAUTIONARY STATEMENT

Sections of this Annual Report, including but not limited to the Directors' Report, the Strategic Report and the Directors' Remuneration Report may contain forward-looking statements with respect to certain of the plans and current goals and expectations relating to the future financial condition, business performance and results of the Group. These have been made by the directors in good faith using information available up to the date on which they approved this report. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the Group and depend upon circumstances that may or may not occur in the future. There are a number of factors that could cause actual future financial conditions, business performance, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. Nothing in this document should be construed as a profit forecast.

Financial highlights



Return on equity **increased** to **10.2%** (2012: 9.3%)

£92.8m

invested in consumer loan portfolios in the period

Earnings per share **28.4p**
up 17.4% from 24.2p in 2012

7.2p Total dividend
up 20% from 6.0p in 2012

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Underlying profit before taxation	104.1	94.2	81.1	66.1	45.3
Profit before taxation	105.4	95.5	80.8	71.8	54.3
Profit after taxation	85.2	72.2	59.6	53.9	41.1
Total loan assets	8,801.5	8,694.6	8,724.2	8,911.2	9,314.3
Shareholders' funds	873.3	803.5	742.0	692.0	650.5

	2013	2012	2011	2010	2009
Net asset value per share	288p	269p	250p	234p	220p
Earnings per share					
- basic	28.4p	24.2p	20.2p	18.3p	13.9p
- diluted	27.5p	23.5p	19.6p	17.8p	13.7p
Dividend per ordinary share	7.2p	6.0p	4.0p	3.6p	3.3p

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

A. Strategic report

A1	Chairman's statement	6
A2	Business model and strategy	8
	A2.1 The Group's business	8
	A2.2 Principal risks and uncertainties	9
A3	Chief Executive's review	11
	A3.1 Financial review	11
	A3.2 Business review	13
	A3.3 Funding review	15
A4	Going concern	17
A5	Corporate social responsibility	18
	A5.1 Employees	18
	A5.2 Environmental policy	21
	A5.3 Social, community and human rights	23
A6	Approval of strategic report	26

A1. Chairman's statement



Bob Dench
Chairman

The year ended 30 September 2013 has been a successful period for the Group, the business has performed strongly and significant progress has been made in laying the foundations for further, sustainable growth for the future. Profits have grown strongly to a record level for the Group and our portfolio of loans, including acquired assets, continues to perform well. Other key performance metrics show trends consistent with recent periods: organic cash generation remains strong; redemptions remain low; and, across the portfolio, credit performance is strong, in line with our expectations.

Asset growth has also been achieved in the year, with loan assets and investments increasing to £8,825.3 million from £8,703.7 million a year earlier. Our Idem Capital portfolio acquisitions business added £92.8 million of new investments during the year and a further £13.5 million shortly after the year end. In Paragon Mortgages, buy-to-let loan completions nearly doubled to £359.8 million and, in our Moorgate loans servicing business, agreements to manage two new portfolios were completed.

The year has seen significant investment aimed at securing growth in future periods. This investment has taken two forms, first, increasing funding capacity for the existing businesses and, second, undertaking preparatory work to establish new business activities.

On funding, warehouse capacity for buy-to-let lending has been increased in the year to £450.0 million. This amount was considerably in excess of the funding requirements of the mortgage business at the start of the year but, together with the success of the Paragon Mortgages (No. 17) and Paragon Mortgages (No. 18) securitisations during the year, has provided the capacity to allow Paragon Mortgages to significantly increase its lending activity. In addition, the Group completed its first retail bond offering in March, a £60.0 million issue maturing in 2020, which, together with our organic cashflow, will support growth in both Paragon Mortgages and Idem Capital going forward.

On new business activities, we have previously commented on our desire to recommence consumer lending, which we expect to operate through a new banking subsidiary to be established within the Group. This remains our objective and preparations for the new bank are well advanced.

During the year ended 30 September 2013 the Group's profit before taxation increased by 10.4% to £105.4 million (2012: £95.5 million). Underlying profit, before fair value items, increased by 10.5% to £104.1 million for the year (2012: £94.2 million).

Earnings per share were 28.4p (2012: 24.2p), the increase of 17.4% from last year reflecting the improved profits earned by the Group and the reduction in the tax rate. The increase in profit has also improved the Group's return on equity to 10.2% from 9.3% for the previous year (note 5).

The Group's strategic focus has remained unchanged: to generate growth through our buy-to-let origination franchise and through investment in loan portfolios; to exploit new opportunities, including the establishment of a banking subsidiary to undertake consumer lending, financed primarily by retail deposits; and to maintain close management of the existing loan portfolio, which continued to perform well in the year.

In view of the results achieved and in line with the new dividend policy announced last year, the Board has proposed a final dividend of 4.8p per share (2012: 4.5p) which, when added to the interim dividend of 2.4p, gives a total dividend of 7.2p per share for the year (2012: 6.0p), an increase of 20.0%, covered 3.9 times by earnings (note 5). Subject to approval at the Annual General Meeting on 6 February 2014, the dividend will be paid on 10 February 2014, by reference to a record date of 10 January 2014.

STRATEGIC REPORT

During the year ended 30 September 2013 the UK Government issued new requirements requiring all companies to produce a strategic report, with additional requirements for listed companies. This must cover such matters as the Group's development and performance in the year and its position at the year end. Section A of this Annual Report and Accounts, including this statement and the Chief Executives review, comprises the Group's Strategic Report. We will be among the first to report under the new rules, which were only published in the latter part of the financial year, with much of the guidance still under development. Therefore we expect these disclosures to develop as time goes on and welcome any comments.

"The business has performed strongly and significant progress has been made in laying the foundations for further, sustainable growth for the future."

CORPORATE GOVERNANCE

The Board of Directors is committed to the principles of corporate governance contained in the UK Corporate Governance Code ('Code') issued by the Financial Reporting Council in September 2012, which came in to force for this financial year. The Group's disclosures in respect of Corporate Governance (Section B2) have been revised in the light of the new Code, including expanded disclosures on the work of the Audit and Compliance Committee, and information on directors' remuneration is provided in the new form required by the Department of Business, Innovation and Skills (Section B3).

BOARD CHANGES

Nick Keen, who has been Finance Director since 1995, has signalled his intention to retire and will be stepping down from the Board on 31 May 2014 following the half-yearly results. Nick has been an outstanding member of the team over the years, ably directing a number of our corporate acquisitions, including Universal Credit, Colonial Finance and Britannic Money, many of Paragon's early portfolio acquisitions and all of the Group's finance raising activities during the period since his appointment. We are pleased to be able to report that Nick's services will be retained as chairman of the Idem division.

Richard Woodman, currently Director - Corporate Development, will take over as Finance Director on 31 May 2014. Richard, who is a member of the Chartered Institute of Management Accountants, joined the Group in 1989 and has held a number of senior strategic and financial roles, including having had line responsibility for internal audit and serving as Director of Business Analysis and Planning, prior to being appointed to the Board in February 2012. Richard has worked closely with Nick over many years and the Board is confident of a smooth transition of responsibilities.

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.

CONCLUSION

The year ended 30 September 2013 has been a period of strong performance across the Group's activities. The Group has earned record profits, expanded key business areas, increased funding for new business and made preparations for the launch of a new bank, subject to regulatory approvals, to recommence consumer lending within the Group. The Board looks forward confidently to continuing the growth of the business in 2014.

ROBERT G DENCH

Chairman

26 November 2013

A2. Business model and strategy

A2.1 The Group's business

The Group is a listed FTSE-350 company, specialising in consumer finance and operating only in the United Kingdom. It is the UK's leading specialist lender of buy-to-let mortgages to professional landlords and residential property investors as well as an active acquirer of loan assets and portfolios and a loan servicing provider for third party clients. It operates on a centralised basis with most of the employees based in its offices in Solihull, West Midlands.

The Group's income

The Group's income is derived from interest, fees and similar charges arising from its investments in first mortgages and consumer loans and fees charged to third parties for administering similar loans on their behalf. The Group's servicing capabilities are organised to reflect the differing operational requirements of these two classes of assets and therefore these are the segments used by the Group to describe its business in this Annual Report.

Generation of assets

The Group currently generates new assets through two operations:

- Paragon Mortgages, which originates new buy-to-let mortgage loans, focussing on professional landlords, through its Paragon Mortgages and Mortgage Trust brands; and
- Idem Capital, which purchases UK debt portfolios from other lenders and invests in similar arrangements led by third parties.

In the past the Group was an active lender in other consumer credit markets, notably residential mortgages, car finance and second charge lending and the Group's assets still include some balances generated by these operations.

The Group is currently making preparations to re-enter the car finance and second charge markets under the Paragon Car Finance and Paragon Personal Finance brands.

The Group continues to keep the consumer finance market as a whole under review to consider whether lending in any new product areas should be introduced.

Funding the business

The Group's main source of funding for its originated assets is through securitisation, which provides long term matched funding for the book at LIBOR linked interest rates. The Group pioneered this technique in the UK in 1987 and has issued 56 securitisation deals since that time. Before securitisation assets are funded through committed bank facilities.

The Group's intention is to fund its new consumer lending primarily through retail deposits to be accepted through a banking subsidiary, and the necessary regulatory authorities for this are being sought.

The working capital of the Group is provided by equity, corporate and retail bonds. The Group's funding mix is kept under review, bearing in mind the cost and availability of appropriate sources of finance.

Profitability of the business

The profitability of the business relies on:

- careful management of loan accounts to increase retention and reduce levels of delinquency;
- vigilance in the underwriting and loan acquisition processes to mitigate losses;

-
- appropriate pricing of new advances or purchased loans;
 - arranging appropriate funding sources to sustain the business; and
 - maintaining control of operating costs.

A2.2 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 the Credit Committee and Asset and Liabilities Committee ('ALCO'), a dedicated Group Risk function, 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 (section B2).

The principal risks inherent in the Group's business model, described in section A2.1, include the following:

Economic environment

A 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 or adversely affect funding structures, which may in turn increase the Group's costs and could result in losses on some of the Group's assets, or restrict the ability of the Group to develop in the future.

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 in section A1 and the Chief Executive's review in section A3.

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 and asset purchase 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 UK and global 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 on both originated and purchased assets are described in the section of note 6 to the accounts entitled 'Credit risk'.

Funding risk

The Group relies on its access to sources of funding to finance the origination of new business, portfolio acquisitions and working capital. If access to funding became restricted, either through market movements or regulatory or governmental action, this might result in the scaling back or cessation of some business lines.

The Group, through ALCO, seeks to mitigate this risk by investigating alternative sources of finance which are, or might become, available to the Group and by keeping its funding and working capital position under review.

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 Chief Executive's review headed 'Capital management' (within section A3.3).

A2.2 Principal risks and uncertainties continued

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, accredited under the International Standard ISO 22301, 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 obtains much of its funding, have been subject to intervention by United Kingdom Government, European Union and other regulatory bodies. Current regulatory developments are discussed in the section of the Chief Executive's review headed 'Regulation' in section A3.2. 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. In order to ensure compliance with the various regulatory regimes it is, or may become, subject to, the Group maintains a compliance function which reviews procedures, examines compliance with them and evaluates knowledge levels across relevant functions.

Management

The success of the Group is dependent on recruiting and retaining skilled senior management and personnel and failure to do so would put the Group's ability to successfully carry out its plans at risk.

The Group's employment policies, which are designed to mitigate this exposure and ensure that an appropriately skilled workforce is, and remains, in place are described within section A5.1.

Other financial risks

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.

A3. Chief Executive's review



During the year ended 30 September 2013 the Group has successfully pursued its strategy to deliver shareholder value through purchasing portfolios, developing new lending, entering into new servicing agreements and continuing the careful management of the extant portfolios.

Nigel Terrington
Chief Executive

A3.1 Financial review

CONSOLIDATED RESULTS

For the year ended 30 September 2013

	2013 £m	2012 £m
Interest receivable	272.6	293.8
Interest payable and similar charges	(111.3)	(136.0)
Net interest income	161.3	157.8
Other operating income	16.6	12.4
Total operating income	177.9	170.2
Operating expenses	(58.6)	(51.9)
Provisions for losses	(15.2)	(24.1)
Underlying profit	104.1	94.2
Fair value net gains	1.3	1.3
Operating profit being profit on ordinary activities before taxation	105.4	95.5
Tax charge on profit on ordinary activities	(20.2)	(23.3)
Profit on ordinary activities after taxation	85.2	72.2
Dividend – rate per share for the year	7.2p	6.0p
Basic earnings per share	28.4p	24.2p
Diluted earnings per share	27.5p	23.5p

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 loans, car finance, retail finance, unsecured loans and other sources of income derived from consumer loans. Both divisions include internally originated and acquired assets. These divisions are the basis on which the Group reports primary segmental information.

A3.1 Financial review continued

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

	2013 £m	2012 £m
Underlying operating profit		
First Mortgages	64.4	61.6
Consumer Finance	39.7	32.6
	104.1	94.2

Net interest income increased by 2.2% to £161.3 million (2012: £157.8 million), reflecting asset growth in the First Mortgages and Consumer Finance divisions but also the cost in the year of increasing funding capacity to support future growth in the Paragon Mortgages and Idem Capital businesses. The combined cost of increasing the warehouse facilities and issuing the retail bond was £3.6 million, charged within interest payable.

Other operating income was £16.6 million for the year, compared with £12.4 million in 2012, the increase of 33.9% reflecting, principally, an increased level of third party fee income both from new administration arrangements and from older contracts as incentive fees began to be earned.

Operating expenses during the year were 12.9% higher at £58.6 million (2012: £51.9 million). There were three principal reasons for this: the charge for share based payments increased by £1.2 million, principally caused by the impact of the increase in the Company's share price during the year; direct costs of £1.3 million were incurred in preparation for the establishment of a bank subsidiary within the Group to fund consumer finance originations; and employment costs increased as additional staff were employed to manage the growth in business activity, particularly the administration of loans acquired or serviced for third parties in the period.

The cost:income ratio was impacted by these additional charges and by the deduction from net interest income in respect of the cost of carrying the new funding lines as outlined above, increasing to 32.9% for the year from 30.5% in the year ended 30 September 2012 (Appendix A). The increase was in line with expectations and the absorption now of these additional costs should support future income growth. On an underlying basis, excluding these additional factors, the ratio reduces to an underlying measure of 30.9% (Appendix A). This is similar to the level for the last year, and remains significantly below the industry average. The Board remains focused on controlling operating costs through the application of rigorous budgeting, management reporting and monitoring procedures.

The charge for impairment provisions of £15.2 million was 36.9% lower than the charge of £24.1 million for 2012, with reductions in both the First Mortgages and Consumer Finance divisions arising from improved arrears performance and the impact of rising house prices on security valuations. As a percentage of loans to customers (note 31) the charge has reduced to 0.17% (2012: 0.28%). Low interest rates have increased affordability for customers, reducing the incidence of new arrears and assisting the correction of past arrears. The loan books continue to be carefully managed and the credit performance of the buy-to-let book continues to be exemplary.

Yield curve movements during the year resulted in hedging instrument fair value net gains of £1.3m (2012: gains of £1.3 million), which do not affect cash flow. As the fair value movements of hedged assets or liabilities are expected to trend to zero over time, this item is merely a timing difference. The Group remains economically and appropriately hedged.

Cash generation has remained strong over the period and in addition the Group raised £60.0 million from the retail bond issue in March. After investing significantly in both asset purchases and in the development of our buy-to-let lending business (detailed below), free cash balances stood at £170.8 million at 30 September 2013 (2012: £127.7 million).

Corporation tax has been charged at an effective tax rate of 19.2%, compared to 24.4% in 2012, the decrease being attributable primarily to the reduction in the standard rate of corporation tax in the UK and a consequent revaluation of deferred tax liabilities.

Profits after taxation of £85.2 million (2012: £72.2 million) have been transferred to shareholders' funds, which totalled £873.3 million at the year-end (2012: £803.5 million).

A3.2 Business review

OPERATING SEGMENTS

First Mortgages

Buy-to-let loan completions increased by 90.5% to £359.8 million for the year (2012: £188.9 million). Application volumes increased over the year, with the pipeline of applications and offers outstanding totalling £231.9 million at 30 September 2013 (2012: £129.9 million). The credit quality of the new lending business written in the year has remained excellent.

The increase in available warehouse capacity and the success of the Group's securitisation activity has ensured that the Group's first mortgage business has been well placed over the year to capitalise on the strength of the private rented sector and the renewed strength of the housing market, which has become evident during 2013. The Group has maintained two distinct propositions, one targeting professional landlords and the other private investor landlords, which together have ensured that we have maintained a strong market position through the year.

The housing market has seen a strong recovery in 2013 albeit against the background of an extended period of low levels of activity and flat house prices. It is now clear that the combination of a general improvement in the economy, higher levels of consumer confidence and continuing government stimulus in the form of the Help-to-Buy and Funding for Lending schemes, have prompted increased levels of house purchase and re-mortgage transactions, which in turn have led to increases in house prices in most regions. By August 2013, house purchase transactions reported by HMRC had reached, at 107,000 a month, the highest level since December 2007. Transactions in the quarter ended 30 September 2013 were up 21.9% on the comparable period last year, whilst mortgage advances in that quarter were, according to estimates made by the Council of Mortgage Lenders ('CML'), 32% up on the same quarter in 2012.

The Royal Institution of Chartered Surveyors reported in its September Residential Market Survey that tenant demand and new landlord instructions continue to increase. This is consistent with the information published by the CML which reports further growth in new buy-to-let lending over the year with completions stronger in the quarters ended 30 June and 30 September 2013 (£4.8bn and £5.7bn respectively), lending in the quarter ended September being up 42.5% on a year earlier. The arrears performance of the buy-to-let sector continues to be better than the owner-occupied market (note 6).

At 30 September 2013, the buy-to-let portfolio was £8,324.4 million, compared with £8,196.4 million a year earlier. The redemption rate on the back book remained low at 2.5% for the year (2012: 2.2%) with landlords continuing to display a long-term commitment to property investment, whilst alternative offerings from other lenders remain unattractive as a result of generally higher funding and capital costs.

The credit performance of the portfolio over the year continued to be exemplary, with the percentage of loans three months or more in arrears (including acquired loans and receivership cases but excluding possessions and receivership cases held for sale) standing at 0.35% at 30 September 2013 (30 September 2012: 0.48%) and remains considerably better than the comparable market average of 1.16% as recorded by the CML at that date (30 September 2012: 1.51%).

With the strong credit performance over the year and with increased house prices impacting on security values, the impairment charge attributable to First Mortgages decreased to £6.8 million for the year from £12.4 million for 2012. At 30 September 2013 there were 1,395 properties across all portfolios where a receiver had been appointed (30 September 2012: 1,504). Of those available for letting, 94.8% were let (30 September 2012: 94.2%).

The owner-occupied book reduced to £77.4 million from £99.2 million during the year ended 30 September 2013 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, portfolio acquisitions and other sources of revenue generation.

Consumer Finance

At 30 September 2013, the total loans outstanding on the Consumer Finance books were £399.7 million, compared with £399.0 million at 30 September 2012, as portfolio purchases (covered below) have balanced redemptions across the portfolios. The performance of the Consumer Finance book, including the acquired assets, remains satisfactory and in line with our expectations.

A3.2 Business review continued

The Group's secured loan portfolio at 30 September 2013, including the acquired assets, was £248.4 million (2012: £279.9 million). The unsecured loan, retail finance and car finance portfolios, including the acquired assets, totalled £151.3 million at 30 September 2013 (30 September 2012: £119.1 million).

The Group's increased exposure to consumer loans in recent years has primarily resulted from portfolio purchases. Preparations are currently under way to recommence consumer lending in a new banking subsidiary. Further details on the progress of this development are set out below.

PORTFOLIO ACQUISITIONS AND SERVICING

A major area of strategic focus for the Group is the acquisition of loan portfolios through Idem Capital and the servicing of third party loan portfolios as opportunities are created through the ongoing process of financial institutions disposing of loan assets. The Group is firmly established as a mainstream purchaser of consumer debt in the UK, in addition to taking advantage of ad-hoc deleveraging-led opportunities as a range of large institutions seek to rationalise their balance sheets.

In addition to assets acquired in its own right, Idem, through its sister companies, Moorgate Loan Servicing and Arden Credit Management, has established two new servicing contracts with co-investment partners during the year. These add volume to the Group's servicing operations and enhance earnings. The contribution to operating profits from these activities increased to £33.3 million (2012: £26.3 million) during the financial year. Further possible investment opportunities are currently under review and the Group's strong track record in loan servicing, risk management and portfolio investment positions it well to continue to exploit similar opportunities as they arise.

Idem Capital

The Group's investment division, Idem Capital, invests in loan portfolios either as principal, where Idem acquires pools in its own right, or as co-investor alongside other partners with, typically, Moorgate Loan Servicing appointed to act as servicer. Co-investing has the potential for higher returns where the Group also derives income from servicing the loans within the underlying portfolio. Investments are made only after significant due diligence work on the portfolio and sensitivity testing of potential returns.

During the year Idem Capital purchased £71.9 million of unsecured loan assets and invested a further £20.9 million in loan portfolios through structured entities as a co-investor. At 30 September 2013, the balance outstanding in respect of investments in portfolios was £193.7 million (2012: £135.4 million). A further £13.5 million was invested in loan portfolios after the year-end.

Moorgate Loan Servicing

The Group's third party loan servicing business operates through Moorgate Loan Servicing and its recoveries division, Arden Credit Management, utilising our core administration and collections skills. Our experience in loan management established over many years has enabled us to extend this service to our third party clients, providing significant added value to the performance of their loan portfolios.

During the year Moorgate Loan Servicing has assumed the servicing of further portfolios, comprising 50,000 accounts, for third parties (2012: 149,000 accounts) with the result that 43.8% of accounts under management by the Group at 30 September 2013 were managed on behalf of third parties (2012: 49.9%). At the end of the year, an agreement to take on the servicing of a further 26,300 third party accounts was in place and these accounts were migrated on to the Group's systems during October 2013.

NEW BUSINESS ACTIVITIES

The Group has applied to the Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA') for authority to establish a banking subsidiary. Subject to regulatory approval, the proposed bank will take deposits and make, initially, car and second mortgage loans, with other product lines to be established in due course. Operational preparations, including executive appointments, management structures and system developments, are all at an advanced stage. Our expectation, subject to approval, will be to launch the bank during the first quarter of 2014. Further progress information will be provided to shareholders in due course.

REGULATION

The proposed European Directive on credit agreements relating to residential property, which may impose additional disclosure and other requirements for all mortgage lending to consumers secured on residential property, has yet to be concluded. It has been reported that the UK Government has negotiated an exemption from the Directive for buy-to-let lending but this has yet to be formally ratified. We will continue to maintain an active dialogue with the UK and European regulatory authorities as these proposals develop.

In the UK the PRA, FCA and Bank of England have now variously assumed the functions of the Financial Services Authority and will, subject to approval, regulate our proposed banking subsidiary. With effect from April 2014, responsibility for the regulation of consumer credit, including second charge mortgage lending, passes from the Office of Fair Trading to the FCA, which has recently published draft conduct of business rules for the sector. These rules will apply not only to the Group's proposed consumer lending operations, but also to our third party servicing activities and closed consumer finance books.

A3.3 Funding review

BORROWINGS

On 5 March 2013 the Group issued £60.0 million of 6.0% sterling bonds due December 2020. The bonds, listed on the London Stock Exchange Order Book for Retail Bonds, were issued to provide additional working capital for the Group. This was the initial transaction under a £1.0 billion Euro Medium Term Note Programme announced in January 2013. The bonds allow us to diversify our funding base and extend the tenor of our borrowings.

On 25 October 2012, the Group completed a £200.0 million securitisation of buy-to-let loans, through Paragon Mortgages (No. 17) PLC ('PM 17'). PM 17 comprises £175.0 million of AAA rated notes, £10.5 million of AA rated notes and £10.0 million of A rated notes at margins of 135, 190 and 290 basis points over three month LIBOR respectively. £4.5 million of subordinated notes were retained by the Group, which also invested £6.0 million in the first loss fund, bringing the Group's total investment in PM 17 to £10.5 million, or 5.25% of the issue amount.

On 23 September 2013, the Group completed a £273.0 million securitisation of buy-to-let loans, through Paragon Mortgages (No. 18) PLC ('PM 18'). PM 18 comprises £238.1 million of AAA rated notes, £15.7 million of AA rated notes and £13.7 million of A rated notes at margins of 115, 170 and 240 basis points over three month LIBOR respectively. £5.5 million of subordinated notes were retained by the Group, which also invested £8.19 million in the first loss fund, bringing the Group's total investment in PM 18 to £13.69 million, or 5.0% of the issue amount.

The pricing of the PM 17 and PM 18 transactions reflected the strong credit profile of the Group's buy-to-let assets and our experience as an issuer of high quality bonds in the mortgage backed securities market. PM 17 was the first buy-to-let securitisation to offer single A rated bonds since 2008 and these deals were only the second and third securitisations of buy-to-let loans since the credit crunch. They were also the Group's 55th and 56th securitisations since pioneering the methodology in 1987. We plan to return to the securitisation markets regularly as business volumes increase.

The Group uses two warehouse facilities to originate mortgage loans prior to arranging term funding in the securitisation markets. The £200.0 million revolving warehouse provided by Macquarie Bank was renewed and extended for a further two years in November 2012 and the amount available for drawing increased to £250.0 million, while an additional £200.0 million revolving warehouse facility, provided by the wholesale division of Lloyds Bank, was utilised for the first time in April 2013. Dependant on market conditions and our expectations for mortgage volumes, additional warehousing capacity may be sought in due course.

A3.3 Funding review continued

CAPITAL MANAGEMENT

The Group has continued to enjoy strong cash generation during the year. Free cash balances were £170.8 million at the year-end (30 September 2012: £127.7 million) after investments to support new buy-to-let originations and acquisitions by Idem Capital. The Company sees opportunities going forward to deploy capital for new lending activities, which should continue to increase, and to invest further amounts in loan portfolios through Idem Capital as banks and other financial institutions continue to dispose of assets. These cash balances, together with future operational cashflow, will support the Group's growth through investment in these areas as well as providing returns to shareholders through dividends.

The Board keeps under review the appropriate level of capital for the business to meet its operational requirements and strategic development objectives and in 2012 announced a new progressive dividend policy so that, by 2016 and thereafter, dividend cover will be maintained in the range 3.0 to 3.5 times.

In pursuance of this policy, and in view of the strong position of the Group and its confidence in the prospects for the business, the Board proposes subject to approval at the Annual General Meeting on 6 February 2014, a final dividend of 4.8p per share which, when added to the interim dividend of 2.4p, gives a dividend of 7.2p per share for the year, an increase of 20.0% from 2012.

In accordance with our usual practice, we will be proposing at the forthcoming Annual General Meeting a special resolution seeking authority from shareholders for the Company to purchase up to 30.5 million of its own shares (10% of the issued share capital). 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. Given the operational and strategic opportunities described above and the enhanced dividend policy, the Board has no current intention of using this authority.

CONCLUSION

Paragon has made significant progress in 2013 delivering record profits, whilst also laying the foundations for further sustainable growth in the future. Buy-to-let lending volumes have grown by over 90% as landlords feel increasingly optimistic about the housing market and the prospects for the private rental sector. At the same time, the Group has continued to build on its highly regarded expertise in the debt purchase market, making further significant investments through Idem Capital.

The Group's actions to increase its warehouse facilities, its successful securitisations and the new retail bond programme all combine to provide substantial capacity to support further growth in our existing business areas. With our banking licence application making good progress and our plans for a return to consumer finance lending now well advanced, the Group is well positioned for further growth in the year ahead.

NIGEL S TERRINGTON

Chief Executive

26 November 2013

A4. Going concern

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 in section A1 and Chief Executive's review in section A3. The principal risks and uncertainties affecting the Group, and the steps taken to mitigate these risks are described in section A2.2.

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' in section B2, 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.

The securitisation funding structures described in note 6 ensure that a substantial proportion of the Group's originated loan portfolio is match-funded to maturity. Repayment of the securitisation borrowings is restricted to funds generated by the underlying assets and there is limited recourse to the Group's general funds. Recent and current loan originations utilising the Group's available warehouse facilities described in note 6 are refinanced through securitisation from time to time. None of the Group's debt matures before 2017, when the £110.0 million corporate bond is repayable. During the year the Group raised a further £60.0 million of working capital through the issue of retail bonds and at 30 September 2013 had available free cash balances of £170.8 million. As a consequence the directors believe that the Group is well placed to manage its business risks successfully.

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.

A5. 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.

A5.1 Employees

The welfare, development and engagement of the Group's employees are central to developing a strong culture, with employee capability and motivation acknowledged as being central to delivery of the Group's strategy.

The Human Resources department actively works alongside the Group's management to recruit, develop and retain capable people.

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 its 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 employees wherever possible.

The Group aims to ensure that applications for employment from people with disabilities, and other under-represented groups, are given full and fair consideration and that such people are given the same training, development and job opportunities as other employees. Every effort is also made to retrain and support employees who suffer from disabilities during their employment, including the provision of flexible working to assist their re-entry into the workplace.

Flexible working is actively encouraged across all areas, to promote a work-life balance for individuals and to ensure that the Group retains the skills and experience of its people.

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:

		2013	2013	2012	2012
		Females	Males	Females	Males
Employees	(Number)	490	378	436	314
	(Percentage)	56.5%	43.5%	58.1%	41.9%
Management grade employees	(Number)	65	88	61	76
	(Percentage)	42.5%	57.5%	44.5%	55.5%
Senior managers	(Number)	3	13	3	12
	(Percentage)	18.8%	81.2%	20.0%	80.0%
Directors	(Number)	1	8	1	8
	(Percentage)	11.1%	88.9%	11.1%	88.9%

Of these employees, ethnic minority employees comprised 12.4% of the workforce (2012: 11.3%) and 5.9% of management grade employees (2012: 4.4%).

Training and development

The Group has been accredited under the 'Investors in People' scheme since 1997 and achieved the Gold Standard in March 2013, which is currently held by only 3% of companies in the UK. This demonstrates the Group's commitment to the training and development of its employees. The 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 appraisal system also provides a method to track individual progress and identify opportunities to develop them into further roles, thereby supporting the Group's overall succession planning objectives.

The corporate training and development strategy focuses on providing opportunities to develop all employees and is central to the achievement of the Group's business objectives. On average employees received 8.7 days training in the year (2012: 7.8 days).

Employees' involvement

The directors recognise the benefit of keeping employees informed of the progress of the business. The Group sponsors a People Forum, attended by elected employee 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 appraisal process and communication between directors, managers, teams and individual employees.

A5.1 Employees continued

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 which liaises with senior management and Human Resources as necessary.

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 the Head of Group Services for the Senior Management Group. ISO18001 certification has been obtained during 2013 and is audited every six months by an external consultant. In addition, a health and safety co-ordinator is employed within Group Services to manage all health and safety records, including policies, procedures, risk assessments and training records.

A5.2 Environmental policy

The Group is engaged in mortgage and consumer finance and arrears management 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 business travel.

The Group complies with all applicable laws and regulations relating to the environment and intends to align its environmental procedures with the International Standard ISO 14001 during the course of the next financial year. It operates a Green Charter, which:

- ensures all buildings occupied by the Group are managed efficiently by its Facilities Team and Building Surveyor
- encourages employees to conserve energy
- promotes recycling by negotiating contracts and providing facilities to enable employees to re-cycle office waste and other used products
- controls business travel and provides opportunities for employees to travel to work in various ways; such as providing cycle racks
- 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
- arranges for paper waste products to be recycled, securely, by third parties

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

The Group's paper based stationery is all procured from FSC certified suppliers.

During the year the Group introduced a Cycle to Work scheme, enabling employees to obtain cycles at preferential rates for commuting purposes.

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

Performance indicators

The environmental key performance indicators for the Group, determined having regard to the Reporting Guidelines published by the Department for Environment Food and Rural Affairs (DEFRA) in June 2013, are set out below.

The Group does not consider it has significant environmental impacts under the headings 'Resource Efficiency and Materials', 'Emissions to Land, Air and Water' or 'Biodiversity and Ecosystem Services' set out in the Guidelines, due to the nature of its business activities.

This information is presented for the 12 months ended 30 September in each year and includes all entities included in the Group's financial statements. Normalised data is based on total operating income of £177.9m (2012: £170.2m).

A5.2 Environmental policy continued

Greenhouse gas ('GHG') emissions

	2013	2012
	Tonnes	Tonnes
	CO₂	CO ₂
Scope 1 (Direct emissions)		
Combustion of fuel:		
Operation of gas heating boilers	638	626
Petrol and diesel used by company cars	202	328
Operation of facilities:		
Air conditioning systems	25	28
	865	982
Scope 2 (Energy indirect emissions)		
Directly purchased electricity	1,548	1,521
Total scope 1 and 2	2,413	2,503
Normalised tonnes - scope 1 and 2 CO ₂ per £m income	13.6	14.7
Scope 3 (Other indirect emissions)		
Purchased goods and services		
Fuel and energy related activities not included in scope 1 or 2	281	272
Water consumption	8	11
Waste generated in operations	18	28
Total scope 3	307	311
Total scopes 1, 2 and 3	2,720	2,814
Normalised tonnes scope 1,2 and 3 CO ₂ per £m income	15.3	16.5

The decrease in GHG emissions shown above is despite changes in the Group's property profile which have increased the floor space in use by 22%, although the number of leased buildings was reduced in the year. This is in excess of both the growth in income and the increase in average headcount of 13% as the Group positions itself to implement the business development plans detailed elsewhere in the Strategic report. Additional space has also been allocated to support the Group's Business Continuity plan. The principal expansion in the year was in the Group's Homer Road headquarters building, which had until recently been sub-divided and leased out. As a result of this, the building management systems are not fully coordinated, leading to inefficiency. A project is in progress to align the systems, which should increase efficiency in the future. The Group has also retained the services of external energy consultants, to further address issues of consumption and efficiency.

Gas and electricity usage is based on consumption recorded on purchase invoices. Vehicle fuel usage is based on expense claims and recorded mileage.

CO₂ values above are calculated based on the DEFRA / DECC guidelines published in June 2013. CO₂ values for the year ended 30 September 2012 have been restated for the revised conversion factors published by DEFRA / DECC.

The amounts shown above for total scope 1 and scope 2 emissions are those required to be reported under the Companies Act (Strategic Report and Directors Reports) Regulations 2013. Other scope 3 emissions not reported above are not considered to be significant.

Water usage

The Group's water usage is limited to the consumption of piped water in the UK. No water is extracted directly. Water usage in the year ended 30 September 2013 was 7,720m³ (2012: 10,099m³), based on consumption recorded on purchase invoices, a normalised amount of 43.4m³ per £m income (2012: 59.3m³ per £m income).

Waste

The Group's waste output consists of general office waste which includes a mixture of principally paper and cardboard with some wood, plastics and metal. All of the Group's waste is either recycled or sent to landfill.

Amounts of waste generated in the year ended 30 September 2013 and the methods of disposal are shown below.

	2013 Tonnes	2012 Tonnes
Recycled	88	82
Landfill	80	134
	168	216
Normalised tonnes per £m income	0.9	1.3

Waste generation data is based on volumes reported on disposal invoices. The Group provides facilities in its offices for recycling paper, cardboard, newspapers, glass, plastics and aluminium and steel cans. Batteries, printer and photocopier cartridges are collected and sent for recycling.

A5.3 Social, community and human rights

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 our customers is a key consideration and objective at all stages of the lifetime of a loan.

Treating Customers Fairly

The Group's Treating Customers Fairly ('TCF') policy is central to our commitment to customers. In adopting the TCF principle we recognise that fair treatment of our customers is about adding value to the service we offer by aiming to:

- protect the interests of our customers at each stage of the product life cycle; and
- meet, as best we can, the unique needs of each customer by offering a transparent, efficient and professional service, constantly reviewing our service to identify areas for improvement.

Our TCF policy follows Financial Conduct Authority ('FCA') guidance and is regularly reviewed and updated. We have a programme of training on TCF for employees and we apply the TCF principles across both our regulated and non-regulated lending.

A5.2 Social, community and human rights continued

Complaint handling

As part of our commitment to TCF we have adopted a complaint handling process that is compliant with the requirements of the FCA and the best practice guidance issued by the Finance and Leasing Association. We view a complaint as an opportunity to improve our business. We have dedicated and experienced complaint handling co-ordinators in each business area who work with our customers to ensure that we handle the complaint, efficiently and effectively.

Charitable contributions

The Group contributes to registered charities relating to financial services or serving the local communities in which it operates. Contributions of £917,000 (2012: £353,000) were made by the Group during the year to the work of the Foundation for Credit Counselling which operates StepChange Debt Charity, formerly the Consumer Credit Counselling Service. The increase in contributions from the previous year reflects the numbers of acquired customers making use of the charity's services. The Group has also contributed to charities throughout the year by way of single donations.

Other charitable contributions made in the year totalled £21,000 (2012: £18,000). 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: The Children's Heart Foundation, Disability Aid Trust, Rotary Club of St Alphege Solihull, Kids in Action, Butterflies Children's Charity, Brainwave, Motor Neurone Disease, Kids in Action, Happy Days, Lupus, Action for Sick Children, Motability, The Brain Tumour Charity, Second Chance, Myton Hospice, Strong Bones Charitable Trust, The Christie Charity, Chicks, Children with Cancer UK, Marie Curie Cancer Care, Lowes Syndrome Trust, Zoe's Place Baby Hospice, Shirley Lions Club, Guy's and St Thomas Charity.

The Group also supports Paragon's Charity Committee, consisting of volunteer employees, which organises a variety of fundraising activities throughout the year. In 2012 £12,000 was raised for The Birmingham Children's Hospital and The Alzheimer's Society, while in the first nine months of 2013 £11,406 has been raised which will be shared between RSPCA Birmingham Animal Centre and Hospital and MacMillan Cancer Support. All employees are given the opportunity to nominate a charity each year and a vote is carried out to select the charity or charities to benefit from the next year's fundraising.

Taxation payments

The Group is resident and operates only in the United Kingdom and the amounts of its payments to UK national and local tax authorities in the year, including PAYE and NI contributions deducted from employee wages and salaries was as follows:

	2013 £m	2012 £m
Corporation tax	22.0	17.0
PAYE and National Insurance	15.9	11.8
VAT	0.4	0.6
Total national taxation	38.3	29.4
Business rates	1.2	1.1
	39.5	30.5

Human rights

The Group operates exclusively in the UK and, as such, is subject to the European Convention on Human Rights and the UK Human Rights Act 1998.

The Group respects all human rights and in conducting its business the Group regards those rights relating to non-discrimination, fair treatment and respect for privacy to be the most relevant and to have the greatest potential impact on its key stakeholder groups of customers, employees and suppliers.

The Board and the Group Director of Legal Services have overall responsibility for ensuring the Group upholds and promotes respect for human rights. The Group seeks to anticipate, prevent and mitigate any potential negative human rights impacts as well as enhance positive impacts through its policies and procedures and, in particular, through its policies regarding employment, equality and diversity, treating customers fairly and information security. Group policies seek both to ensure that employees comply with the relevant legislation and regulations in place in the UK and to promote good practice. The Group's policies are formulated and kept up to date by the relevant business area, authorised by the Board and communicated to all employees through the Human Resources Policies Manual.

The Group undertakes extensive monitoring of the implementation of all of its policies and has not been made aware of any incident in which the organisation's activities have resulted in an abuse of human rights.

A6. Approval of strategic report

Section A of this Annual Report comprises a strategic report for the Group which has been drawn up and presented in accordance with, and in reliance upon, applicable English company law, in particular Chapter 4A of the Companies Act 2006, and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

It should be noted that the Strategic Report has been prepared for the Group as a whole, and therefore gives greater emphasis to those matters which are significant to the Company and its subsidiaries when viewed as a whole.

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

JOHN G GEMMELL

Company Secretary

26 November 2013

B. Corporate governance

B1	Board of directors	28
B2	Corporate governance	30
B2.1	Audit and Compliance Committee	34
B2.2	Nomination Committee	36
B3	Directors' remuneration report	38
B3.1	Statement by the Chairman	38
B3.2	Policy report	39
B3.3	Annual report on remuneration	51
B4	Directors' report	69
B5	Statement of directors' responsibilities	72

B1. Board of directors



Robert G Dench

Chairman
Age 63

Bob Dench joined the Group 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, where he chairs the Audit Committee, and Chairman of AXA Ireland Limited.



Nigel S Terrington

Chief Executive
Age 53

Nigel Terrington joined the Group in 1987 and became Chief Executive in June 1995, having previously held the positions of Treasurer and Finance Director. Prior to joining the Group, he worked in investment banking. He is chairman of the Council of Mortgage Lenders and is also a member of HM Treasury's Home Finance Forum. He has previously held the positions of Chairman of the Intermediary Mortgage Lenders Association ('IMLA'), Chairman of the Finance and Leasing Association ('FLA') Consumer Finance Division and a Board member of the FLA. He is an associate of the Chartered Institute of Bankers.



Nicholas Keen

Finance Director
Age 55

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.



Richard J Woodman

Director - Corporate Development
Age 48

Richard Woodman was appointed to the Board as Director - Corporate Development in February 2012. He was also appointed Managing Director of Idem Capital Limited. He joined the Group in 1989 and he has held various senior strategic and financial roles, latterly as Director of Business Analysis and Planning. More recently he has taken a lead role in the Group's strategic development and, in particular, in the portfolio acquisition programme through Idem Capital. He is a member of the Chartered Institute of Management Accountants.



John A Heron

Managing Director – Paragon Mortgages
Age 54

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. He joined the Board in 2003 and is responsible for the Group's buy-to-let mortgage business. He is a Fellow of the Chartered Institute of Bankers, Chair of the CML buy-to-let panel and a member of the IMLA board.



Edward A Tilly

Non-executive director
Age 70

Ted Tilly was appointed as a non-executive director on 1 April 2008. He 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. He 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. He is the Senior Independent Director.



Alan K Fletcher

Non-executive director
Age 63

Alan Fletcher was appointed as a non-executive director on 25 February 2009. He 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. He was Chairman of the professional training company, Fresh Professional Development, from 2003 to 2010. He was a member of the General Synod of the Church of England between 2007 and 2010. He has been a member of the Church of England Pensions Board since 2009 and is also a member of its Investment Committee and Chairman of the Housing Committee. He is Chairman of the Paragon Remuneration Committee.



Peter J N Hartill

Non-executive director
Age 64

Peter Hartill was appointed as a non-executive director on 11 February 2011. A Chartered Accountant, he is currently non-executive Chairman of Deeley Group and a non-executive director of Scott Bader Limited. Previously, he spent forty years with Deloitte, becoming a senior audit partner and a business advisor with experience across a wide range of industries and business issues. Specifically he has considerable experience in acquisitions and disposals, capital raising, risk control and corporate governance in the financial services sector. He is Chairman of the Paragon Audit and Compliance Committee.



Fiona J Clutterbuck

Non-executive director
Age 55

Fiona Clutterbuck was appointed as a non-executive director on 12 September 2012. She is currently the Head of Strategy and Corporate Development at the Phoenix Group and is also senior independent director of WS Atkins plc and brings to the Board a substantial level of corporate finance experience, having previously held the positions of Managing Director and Head of Financial Institutions Advisory at ABN AMRO Investment Bank, Managing Director and Global Co-Head of Financial Institutions Group at HSBC Investment Bank and Director at Hill Samuel Bank Limited.

B2. Corporate governance

The Board of directors is committed to the principles of corporate governance contained in the UK Corporate Governance Code ('Code') issued by the Financial Reporting Council in September 2012 and which is publicly available on their website at www.frc.org. Throughout the year ended 30 September 2013 the Company complied with the provisions of the Code.

Leadership

The Board of directors 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.

During the year the Board of directors comprised the Chairman, four executive and four independent non-executive directors. All of the directors bring to the Company a broad and valuable range of experience. The names of the directors in office at the date of this report and their biographical details are set out in section B1.

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 Edward Tilly, the Senior Independent Director. This provides effective balance and challenge.

The Chairman's other business commitments are set out in the biographical details in section B1 and there have been no significant changes during the period to those commitments.

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.

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

Board committees

- The Remuneration Committee, which during the year consisted of Alan Fletcher (who chairs the Committee), Fiona Clutterbuck, Peter Hartill, and Edward Tilly, all of whom were independent non-executive directors, and the Chairman of the Company, Robert Dench.
- The Audit and Compliance Committee, which during the year consisted of Peter Hartill (who chairs the Committee), Fiona Clutterbuck, Alan Fletcher, and Edward Tilly, all of whom were independent non-executive directors. 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.
- The Nomination Committee, consisting of Robert Dench, who chairs the Committee, Nigel Terrington and all of the non-executive directors, ensuring that a majority of the Committee's members are independent non-executive directors.

Executive committees

- The Asset and Liability Committee, consisting of appropriate heads of functions and chaired by Nigel Terrington, the Chief Executive. The Committee meets regularly and monitors Group liquidity risks, interest rate risks, currency risks and treasury counterparty exposures. Further information on the Group's financial risk management procedures and the Committee's part in them is given in note 6 to the accounts.
- The Credit Committee, consisting of appropriate heads of functions and chaired by Nicholas Keen, the Finance Director. It meets regularly and is responsible for establishing credit policy and monitoring compliance therewith.

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 attendance of individual directors at the regular meetings of the Board and its committees in the year is set out below, with the number each was eligible to attend shown in brackets

Director	Board	Audit and Compliance Committee	Remuneration Committee	Nomination Committee
Robert G Dench	9 (9)	-	5 (5)	-
Nigel S Terrington	9 (9)	-	-	-
Nicholas Keen	9 (9)	-	-	-
John A Heron	9 (9)	-	-	-
Richard J Woodman	9 (9)	-	-	-
Edward A Tilly	8 (9)	3 (3)	4 (5)	-
Alan K Fletcher	9 (9)	3 (3)	5 (5)	-
Peter J N Hartill	9 (9)	3 (3)	5 (5)	-
Fiona Clutterbuck	7 (9)	3 (3)	4 (5)	-

The work of the Board committees is described further in sections B2.1, B2.2 and B3.

Effectiveness

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. The non-executive directors meet with the Chairman, from time to time, without the presence of the executive directors.

All of the directors were re-elected at the Annual General Meeting on 7 February 2013 and all of them have submitted themselves for re-election at the forthcoming Annual General Meeting.

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 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.

During the year the Board conducted a formal and rigorous performance review, which was facilitated by Socia Limited, who have no other connection with the Group. All Board members participated in a series of individual face to face interviews with the external facilitator, which were followed by a Board discussion at its meeting in July 2013. The facilitator's formal report stated that the review indicated that the Company met the requirements of the Code.

B2 Corporate governance continued

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

The Chairman appraises the performance of the non-executive directors, identifying any development opportunities or training needs.

Following her appointment to the Board in September 2012, Fiona Clutterbuck undertook a programme of activities to familiarise herself with the operations of the Group. All of the non-executive directors have received presentations during the year on various aspects of the Group's activities.

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 letters of appointment of the non-executive directors will be available for inspection at the Annual General Meeting.

Accountability

Detailed reviews of the performance of the Group's main business lines are included within the Strategic report. The Board uses this to present a fair, balanced and understandable assessment of the Company's position and prospects.

The directors' responsibility for the financial statements is described in section B5.

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 2013 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, including the system of internal control over financial reporting, 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.

Internal control over financial reporting within the Group is provided by a process designed, under the supervision of the Finance Director and senior financial management of the Group, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes, including the process of preparing the Group's consolidated financial statements.

Internal control over financial reporting includes policies and procedures intended to ensure that records are maintained that fairly, and in reasonable detail, reflect transactions and dispositions of assets, to provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements, to ensure that receipts and expenditures are only being made in accordance with management authorisation and to provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements.

Internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may reduce.

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. Further details of the role and activities of the Audit and Compliance Committee and its relationship with the internal and external auditors are set out in section B2.1.

Remuneration

Information on how the Group has applied the provisions of the Corporate Governance Code relating to remuneration is set out in the Directors' remuneration report in section B3.

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, to answer their questions and receive their views. Shareholders have an opportunity to vote separately on each resolution and all proxy votes lodged are counted and the balances for, against and directed to be withheld in respect of 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, enabling them to develop an understanding of the major shareholders' views of the Group. During the year ended 30 September 2013 meetings were held with investors from the UK, Europe and North America. From time to time other presentations are made to institutional investors and analysts to enable them to gain a greater understanding of important aspects of the Group's business.

The Chairman and the Chairman of the Remuneration Committee hold annual meetings with leading shareholders to discuss remuneration policies and other corporate governance matters and the comments received are reported to the Board and considered by the Remuneration Committee in determining or varying the Group's approach to executive compensation.

The Company's web site at www.paragon-group.co.uk provides access to information on the Company and its businesses.

B2.1 Audit and Compliance Committee

The Audit and Compliance Committee comprises all of the independent non-executive directors of the Company and its terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code.

The Committee's responsibilities include:

- monitoring the integrity of the Group's financial reporting;
- reviewing the Group's internal control and risk management systems;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- ensuring that the system and controls for regulatory compliance are effective; and
- monitoring the relationship between the Group and the external auditor.

It also provides a forum through which the Group's external and internal audit functions report to the non-executive directors.

Meetings

The Committee meets at least three times a year and has an agenda linked to events in the Group's financial calendar. The Committee normally invites the Chairman, the executive directors, Director of Financial Accounting and Group Company Secretary, Director of Legal Services, Head of Internal Audit and a partner and other representatives from the external auditor to attend meetings of the Committee, although it reserves the right to request any of these individuals to withdraw.

For part of each meeting the Committee will meet separately with representatives of the external auditor and the Head of Internal Audit without any other persons present.

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

Significant issues addressed by the Committee in relation to the financial statements

The Committee considers whether the accounting policies adopted by the Group are suitable and whether significant estimates and judgements made by the management are appropriate. In evaluating the Group's financial statements for the year ended 30 September 2013 the Committee considered particularly:

- The calculation of interest income under the Effective Interest Rate method for both internally originated and purchased loan assets;
- The levels of impairment provision against loan assets;
- The valuation of the deficit in the Group's defined benefit pension scheme; and
- The Group's capital and funding position and the Group forecasts for future periods.

In each of these areas the Committee was provided with papers discussing the position shown in the accounts, the underlying market conditions and assumptions and the methodology adopted for any calculations. These were reviewed in detail and discussed with the relevant Group staff and the results of this work were considered, together with the results of testing by the external auditor.

The Committee also considered whether this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Committee was able to reach satisfactory conclusions on all of these areas and therefore resolved to commend the Annual Report to the Board for approval.

External auditor

The Committee is responsible for assessing the effectiveness of the external audit process, for monitoring the independence and objectivity of the external auditor and for making recommendations to the Board in relation to the appointment of external auditors. The Committee is also responsible for developing and implementing the Group's policy on the provision of non-audit services by the external auditor.

The Committee considers the effectiveness of the external audit and the Group's relationship with the external auditor, Deloitte LLP, on an on-going basis, and have conducted a formal review of the effectiveness of the annual audit before commending this Annual Report to the Board. This review consisted of considering a list of relevant questions, together with the senior financial management of the Group, without the external auditor present, and then discussing the evaluation with the auditors. The Committee was able to conclude, on the basis of this exercise and its experience over the year that the external audit process remained effective. A further review will be carried out following the completion of audit procedures on all Group companies and reported on in next year's annual report.

Deloitte LLP and its predecessor firms have been the auditors of the Group since its foundation in 1985, although the lead audit partner rotates every five years, most recently following the completion of the audit for the year ended 30 September 2011. Before recommending their re-appointment to the Board, the Committee engaged with the auditors to ensure that they are still providing the required quality of service and remained independent. During the year the external auditor presented the Committee with their firm's transparency report, which is intended to demonstrate the steps it takes to ensure audit quality with reference to the Audit Quality Framework issued by the Professional Oversight Board of the Financial Reporting Council. More specifically the Committee considered whether the auditor's understanding of the Group's business, their access to appropriate financial services and regulatory specialists within their firm, both locally and nationally, and their understanding of the sectors in which the Group operates were appropriate to the Group's needs. It also assessed the performance of the audit, as described above, the auditor's conduct of their relationship with the Group and the requirements of the Group's financial control process. On this basis the Committee 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 therefore recommended to the Board that the reappointment of Deloitte LLP should be proposed at the forthcoming Annual General Meeting.

The Committee notes, however, the recent findings of the Competition Commission into the audit market, which will require all FTSE-350 companies to put their audit out to tender every ten years, and, where auditors have been in office since before 2005, to conduct a tender no later than two years after the end of the current lead partner's five year term. That would mean that the Group would be required to put its audit out to tender in or before its financial year ending 30 September 2018. A recommended course of action will be proposed to the Board during the next financial year and the Committee will report on its conclusions in next year's annual report. The Committee has not identified any factors which might restrict its choice of external auditor.

Both the Committee and the external auditor have in place safeguards to avoid any compromise of the independence and objectivity of the external auditor. The Committee considers the independence of the external auditor annually and the Group has a formal policy for the engagement of its external auditor 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 auditor's opinion on the Group's financial statements.

The policy precludes the appointment of the external auditor to provide any service where there is involvement in management functions or decision making, or any service on which management may place primary reliance in determining the adequacy of internal controls, financial systems or financial reporting. The external auditor may provide corporate finance and similar services (provided there is no significant advocacy role) or tax services but, if the advice given or the position taken would be material to the Group, the prior consent of the Committee would be required. Internal audit services will not be provided by the external auditor. Other services may be procured by management without the prior consent of the Committee, but are reported to the Committee on an ongoing basis.

Fees paid to the external auditor are shown in note 16 to the Accounts. Other than services required to be provided by external auditors by legislation or regulation, non-audit services relate to taxation, corporate finance activity and the advisory work in connection with the Group's application for a banking licence (shown as 'other services' in note 16).

B2.1 Audit and Compliance Committee continued

In respect of taxation services the Committee has considered the services provided and concluded that the understanding of the Group and the industry demonstrated by the advisers make them well placed to meet the Group's needs. In respect of the corporate finance services, the external auditor's firm was selected to provide these services as they were considered to offer the most appropriate skills and experience for the projects concerned in a cost-effective manner. In respect of the banking licence application, the external auditor's firm was appointed after a rigorous process to evaluate their appropriateness for the role, and only after some early work on the project had been placed with an alternative supplier.

Overall the fees paid to the external auditor for non-audit services (excluding VAT), were £1,185,000, which is equivalent to 69% of the total fees paid to them. However £260,000 relates to the banking application, which has now been submitted and a further £75,000 related to projects undertaken in conjunction with third parties where the cost has been recovered from them. Excluding these items, non-audit fees represent 62% of the total.

Other potential providers were considered and the use of the external auditor's firm was approved by the Committee after having received confirmation from the auditor that they had taken specific steps to protect their independence in accordance with the Auditing Practices Board's Revised Ethical Standards for Auditors.

Internal audit

During the year the Committee has considered and approved the Group internal audit plan, which is based on an assessment of the key risks faced by the Group. It has monitored progress of the internal audit function against that plan, ensuring that the internal audit function has sufficient resource to carry out its duties effectively.

Reports on internal audit work have been received by the Committee and, where necessary appropriate actions have been recommended to the Board.

The results of this work, together with the Committee's engagement with the management information of the Group and the executive directors, has enabled them to conclude that the statements given in section B2 relating to the Group's systems of internal control and its management of risk are appropriate.

B2.2 Nomination Committee

The Nomination Committee consists of the Chairman of the Company, Robert Dench, who chairs the Committee, Nigel Terrington and all of the non-executive directors, ensuring that a majority of the Committee's members are independent non-executive directors. The Committee is convened as required to nominate candidates for membership of the Board, although ultimate responsibility for appointment rests with the Board.

The Group recognises the importance of diversity, including gender diversity, at all levels of the organisation including the Board and the contribution which it can make to Board effectiveness. The Group's diversity policies are described in section A5.1 of the Annual Report, where information on the composition of the workforce is also given. The Group recognises the importance of diversity on the Board, not only of gender, but also of experience and background, and the valuable contribution which such diversity can make towards achieving the appropriate balance of skills and knowledge which an effective board of directors requires.

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 specification of the skills required and the identification of suitable candidates by the Committee. The choice of appointee is based entirely on merit. The 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 Committee only engages in the process of identification of suitable candidates for appointment to the Board when requested by the Board to do so and no meetings of the committee took place in the year.

B3. Directors' Remuneration Report

This report is on the activities of the Remuneration Committee for the year ended 30 September 2013 and sets out the remuneration policy and remuneration details for the executive and non-executive directors of the Company. It has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008, as amended in August 2013, and the principles of the UK Corporate Governance Code. This is the first time that the Company has reported under these new regulations, and we would welcome any feedback on the format and content of this report in order to assist us in determining what, if any, revisions should be made to it in future years.

The report is split into three main areas: the Statement by the Chairman of the Committee (B3.1), the Policy Report (B3.2) and the Annual Report on Remuneration (B3.3). The Policy Report will be subject to a binding shareholder vote at the Annual General Meeting to be held on 6 February 2014 and the policy will take effect on approval. The Annual Report on Remuneration provides details on remuneration in the period and some other information required by the Regulations. It will be subject to an advisory shareholder vote at the Annual General Meeting.

The Companies Act 2006 requires the auditors to report to the shareholders on certain parts of the report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the Annual Report on Remuneration that are subject to audit are indicated in that report. The Statement by the Chairman of the Remuneration Committee and the Policy Report are not subject to audit.

B3.1 Statement by the Chairman of the Remuneration Committee

The information provided in this part of the Directors' Remuneration Report is not subject to audit.

Dear Shareholder

The philosophy underpinning the Group's remuneration policy seeks to produce an outcome which is fair and appropriate to the Company, its shareholders and its senior executives. Company performance is central, with the focus being on short and long term qualitative and quantitative objectives. The Group has made excellent progress against the objectives set at the beginning of the financial year: Operating profit has increased by 10.4% to £105.4 million, £359.8 million of first mortgage loans were advanced, whilst maintaining high credit standards, £92.8 million was invested in loan portfolios, two securitisations were completed on improving terms, warehouse funding facilities were increased and extended, and the Group's preparations to recommence consumer lending, which is likely to be through a bank subsidiary, were significantly progressed. The Committee has reflected this performance in applying the remuneration policy.

Performance bonuses of 85.0% of maximum for Mr N S Terrington and Mr N Keen, 76.0% of maximum for Mr J A Heron and 92.5% of maximum for Mr R J Woodman have been awarded. In reaching this determination, the Committee has reviewed performance against a number of financial and risk based targets, taking into account individual performance. Long term incentives ('LTIs') which were granted in January 2010 matured in January 2013. These awards were subject to a Total Shareholder Return ('TSR') performance condition, measured against the FTSE-250 Index over the three year period from the date of grant. The Company's performance over the period ranked in the upper quartile and therefore the awards vested in full. It is the judgement of the Committee that these rewards to executives are a fair reflection of performance over the period.

During the year the Committee considered all aspects of its policy on executive director remuneration. This concluded that, following the alterations reported last year to the performance metrics used for awards of LTIs, the current policy remained appropriate and would apply during the year and in future years. As a result of these alterations awards granted have a reduced weighting on relative TSR, whilst an Earnings Per Share ('EPS') performance condition has been introduced. Otherwise, there have been no further changes to remuneration policy and none are currently proposed.

The other key decisions made by the Committee during the year are as follows:

- Salaries for 2014 have been increased by 2%, broadly in line with increases to other employees.
- The previous Performance Share Plan expired in 2013 and a replacement plan was approved at the Annual General Meeting held on 7 February 2013, with awards of performance shares being granted under the replacement plan during the year.

- Awards of performance shares with a market value of 200% of salary, vesting of half of which is subject to a relative TSR performance condition measured against the constituents of the FTSE-250 index (excluding investment trusts) and vesting of half of which is subject to an EPS performance condition measured against a retail price index related target, will be awarded shortly.
- No awards will be granted under the Matching Share Plan in the coming financial year.
- The share ownership guideline for executive directors was increased from 100% to 200% of annual salary.

Together with the Group Chairman, I consulted with major shareholders prior to the Committee's finalisation of the decisions above and received broad support.

The most important challenge for the Committee will be to continue to ensure that the remuneration policy remains appropriately structured to retain and motivate executive directors, whilst providing alignment with shareholders and, most importantly, directly linking to the achievement of the Company's strategy.

I commend this report to shareholders and ask you to support the resolutions to approve the Company's forward looking Remuneration Policy Report and the annual report on remuneration for the year ended 30 September 2013 at the forthcoming Annual General Meeting.

ALAN K FLETCHER

Chairman of the Remuneration Committee
26 November 2013

B3.2 Policy report

The information provided in this part of the Directors' Remuneration Report is not subject to audit.

Introduction

This part of the report sets out the directors' remuneration policy to apply from the Annual General Meeting to be held on 6 February 2014 and which will be subject to a binding vote by shareholders during that meeting. The policy, once approved, will apply until the Annual General Meeting in 2017, unless revised by a vote of shareholders ahead of that time.

Following a review of all aspects of the policy on executive directors' remuneration policy during the year ended 30 September 2012 and the resulting changes to the performance metrics used for subsequent awards of LTIs, no further changes of policy are proposed for the year ending 30 September 2014.

In setting the remuneration policy for the executive directors, the Committee takes into account:

- The need to attract, retain and motivate high quality executive directors to fulfil the Company's strategy;
- The maintenance of a clear link between rewards and company performance;
- The objective of achieving an appropriate mix of fixed and variable pay;
- The views of our investors and shareholder bodies;
- The requirement to comply with the UK Corporate Governance Code ('the Code');
- The need to encourage management to adopt a level of risk which is in line with the risk appetite of the business as approved by the Board;
- The need to ensure a long-term focus through the deferral of part of the annual bonus and the requirement for executive directors to maintain a significant level of investment in the Company's shares;

B3.2 Policy report continued

- Pay and benefit practice within the Group and within the sector; and
- Periodic peer group comparisons.

Contractual commitments already made to directors will continue to be honoured as part of this policy.

Remuneration policy for the Chairman and executive directors

The Company's policy is to ensure that the executive directors are fairly rewarded for their individual performance, having regard to the importance of retention and motivation. The performance measurement of the executive directors and the determination of their annual remuneration packages are undertaken by the Committee. The Committee also sets the salary for the Chairman, taking account of his performance and time commitment in the role.

In forming and reviewing remuneration policy the Committee has given full consideration to the Code and has complied with its provisions relating to directors' remuneration throughout the year. Moreover, the Committee has given due regard to the link between remuneration and strategy, seeking to ensure that the remuneration structures in place do not encourage excessive risk or activities that are not in line with the agreed strategy.

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 FTSE-250 companies with market capitalisations similar to the Group's, there now being no directly comparable financial services businesses in the UK.

The Committee pays due regard to the levels of remuneration within the Group when determining the remuneration of executive directors and other senior employees. It also seeks to ensure that the incentive structure for senior management does not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

Key aspects of the remuneration policy for executive directors

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 PSP and invitations to participate in the award of shares under the MSP from time to time. The performance-related elements of remuneration are intended to provide a significant proportion of executive directors' potential total remuneration.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Base salary			
To provide a competitive, fixed cash component that reflects the scope of individual responsibilities and recognises sustained individual performance in the role.	Remunerate fairly for individual performance, having regard to the importance of motivation. Take into account remuneration levels in the Group as a whole, individual and business performance and objective research into comparable companies.	Salaries for the year ending 30 September 2014 are set out in the Annual Report on Remuneration. Increases, if the Committee is satisfied with the individual's performance will normally broadly follow those awarded for the rest of the organisation. Changes in the scope or responsibilities of a director's role may require an adjustment to salary above the normal level of increase.	None.
Benefits			
To provide market levels of benefits on a cost-effective basis.	Private health cover for the executive and their family, life insurance cover of up to four times salary and company car or cash alternative. Other benefits may be offered from time to time broadly in line with market practice.	Private health care benefits are provided through third party providers and therefore the cost to the company and the value to the director may vary from year to year The maximum car allowance is £12,000 per annum. It is intended the maximum value of benefits offered will remain broadly in line with market practice.	None.
Pension			
To provide competitive post-retirement benefits.	1/37.5 of basic annual salary for each year of eligible service. A cash alternative is offered in lieu of pension accrual, equating to the approximate cost to the Company of defined benefit provision, normally reviewed every five years. For new external appointments a cash allowance or company pension contribution set at a rate lower than that for existing directors may be awarded.	Maximum pension 2/3 of salary at retirement or the value of the annual cash alternative calculated by the Company's actuary.	None.

B3.2 Policy report continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Annual bonus			
<p>To incentivise executives to achieve specific, predetermined goals that drive delivery of the Company's operational objectives over a one-year period.</p> <p>To reward individual performance.</p> <p>To encourage retention and alignment with shareholders' interests through a three-year deferral of a proportion of bonus, awarded in shares.</p>	<p>Each executive director's annual bonus is based on a challenging mix of financial, strategic and risk-related performance measures.</p> <p>25% of amounts awarded in excess of £50,000 are deferred, to be satisfied in shares (together with the aggregate amount of accrued dividend thereon), for three years. Higher levels of deferral may be required by the Committee.</p> <p>A clawback mechanism applies to all participants in the event of misconduct or a material misstatement of the Group's accounts.</p> <p>The annual bonus is non-pensionable.</p>	<p>Maximum bonus potential is 200% of salary.</p> <p>For Target performance a bonus of 100% of salary will be awarded, with additional amounts being awarded for exceptional performance.</p> <p>If a bonus is awarded the minimum that could be paid is 8.25% of salary.</p> <p>For performance below threshold, no bonus is payable.</p>	<p>The performance targets are set by the Committee at the start of the year with input, as appropriate, from the Chairman and Chief Executive.</p> <p>The bonus is calculated as follows:</p> <p>Performance against a range of measures, with the majority relating to financial metrics and the remainder reflecting risk-related measures;</p> <p>Each element is then subject to a scale factor that can reduce or increase the bonus (subject to the overall cap of 200% of salary) according to performance against personal and strategic objectives relating to the three elements.</p> <p>This determines the percentage payout of the annual bonus, which is capped at the maximum opportunity of 200% of salary.</p> <p>Details of the performance targets set for the year under review and performance against them are provided in the Annual Report on Remuneration.</p>

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Performance Share Plan ('PSP')			
<p>To incentivise executives to achieve enhanced returns for shareholders.</p> <p>To encourage long-term retention of key executives.</p> <p>To align the interests of executives and shareholders.</p>	<p>An annual award of shares subject to continued service and performance conditions over a three year performance period.</p> <p>The performance conditions used are reviewed on an annual basis to ensure they remain appropriate.</p> <p>Awards are structured as nil cost options with a ten year life.</p> <p>Executives are entitled to any dividends which accrue over the period on vested awards.</p>	<p>Maximum award is 200% of salary in any year.</p>	<p>Granted subject to a combination of challenging financial (e.g. adjusted EPS) and relative TSR targets, tested over three years.</p> <p>25% of the awards will vest for threshold performance, with full vesting taking place for equalling or exceeding the maximum performance target.</p> <p>The Committee retains the ability to amend the performance conditions for future grants to ensure that such grants achieve the stated purpose.</p>
Matching Share Plan ('MSP')			
<p>To provide additional incentive for executives to achieve enhanced returns for shareholders.</p> <p>To encourage long-term retention of key executives.</p> <p>To encourage key executives to hold personal investment in the Company's shares.</p>	<p>Key executives invited, from time to time, to invest the after tax equivalent of up to 25% of salary. (50% in exceptional circumstances).</p> <p>At the end of a three year performance period and subject to the shares being held and the satisfaction of performance criteria determined by the Committee, participants receive a match for shares on a two for one basis.</p> <p>Awards are structured as nil cost options with a ten year life.</p> <p>The MSP expires in February 2016 and the last grant made under this plan was in 2010.</p>	<p>Normal maximum permissible award is 50% of salary after tax.</p> <p>Exceptional maximum permissible award is 100% of salary after tax.</p>	<p>Granted subject to a combination of challenging financial (e.g. adjusted EPS) and relative TSR targets, tested over three years.</p> <p>25% of the awards will vest for threshold performance, with full vesting taking place for equalling or exceeding the maximum performance target.</p>

B3.2 Policy report continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Sharesave share plan			
<p>To provide all employees with the opportunity to become shareholders on similar terms.</p>	<p>Periodic invitations are made to participate in the Company's Sharesave Plan.</p> <p>A savings contract over three or five years with the funds used on maturity either to purchase shares by exercising options or returned to the participant.</p> <p>The option is granted at a discount to the share price at the time of grant of up to 20%.</p> <p>The Plan provides tax benefits in the UK subject to satisfying certain HMRC requirements and is operated on an 'all employee' basis.</p>	<p>HMRC monthly savings limits apply.</p>	<p>None.</p>

Key aspects of the remuneration policy for the Chairman and non-executive directors

The Chairman receives a salary, a company car or cash alternative and is eligible for private health cover for himself and his family in the same way as the executive directors. Non-executive directors are remunerated solely by fees. Neither the Chairman nor the non-executive directors are eligible to participate in any of the Company's incentive or pension schemes and they are not entitled to receive compensation for early termination of their terms of engagement.

Benefits may also be provided to non-executive directors related to the performance of their duties (e.g. travel and hospitality).

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Salary and fees			
<p>To ensure that the Group can attract and retain the appropriate number and mix of non-executive directors with the correct experience to provide balance, oversight and challenge.</p>	<p>Non-executive director fees are reviewed on a periodic basis and are subject to the Articles of Association. The Chairman's fee is set annually by the Committee, whilst the non-executive directors' fees are determined by the Board.</p> <p>The Board will exercise judgement in determining the extent to which non-executive directors fees are altered in line with market practice, given the requirement to procure and retain the appropriate skills and given the expected time commitments.</p> <p>Non executive directors are paid an annual base fee with additional fees for the roles of Senior Independent Director and chairman of the Board Committees.</p>	<p>Salaries and fees for the year ending 30 September 2014 are set out in the Annual Report on Remuneration.</p> <p>Increases above those awarded for the rest of the organisation may be made to reflect the periodic nature of any review.</p> <p>Changes in the scope, responsibilities of a director's role, or the time commitment required, may require an adjustment to the level of their fee.</p> <p>The Articles of Association of the Company contain a maximum level of fees that can be paid annually to non-executive directors. This is reviewed by the Board from time to time.</p>	<p>None.</p>

Remuneration committee flexibility, discretion and judgement

The Committee operates the variable incentive plans according to their respective rules and in accordance with HMRC rules where relevant. To ensure the efficient administration of these plans the Committee has certain operational powers. These include the determination of:

- The participants of the plans on an annual basis;
- The timing of grant of award and/or payment;
- The quantum of an award and/or a payment (within the limits set in the policy table above);
- The extent of vesting based on the assessment of performance;

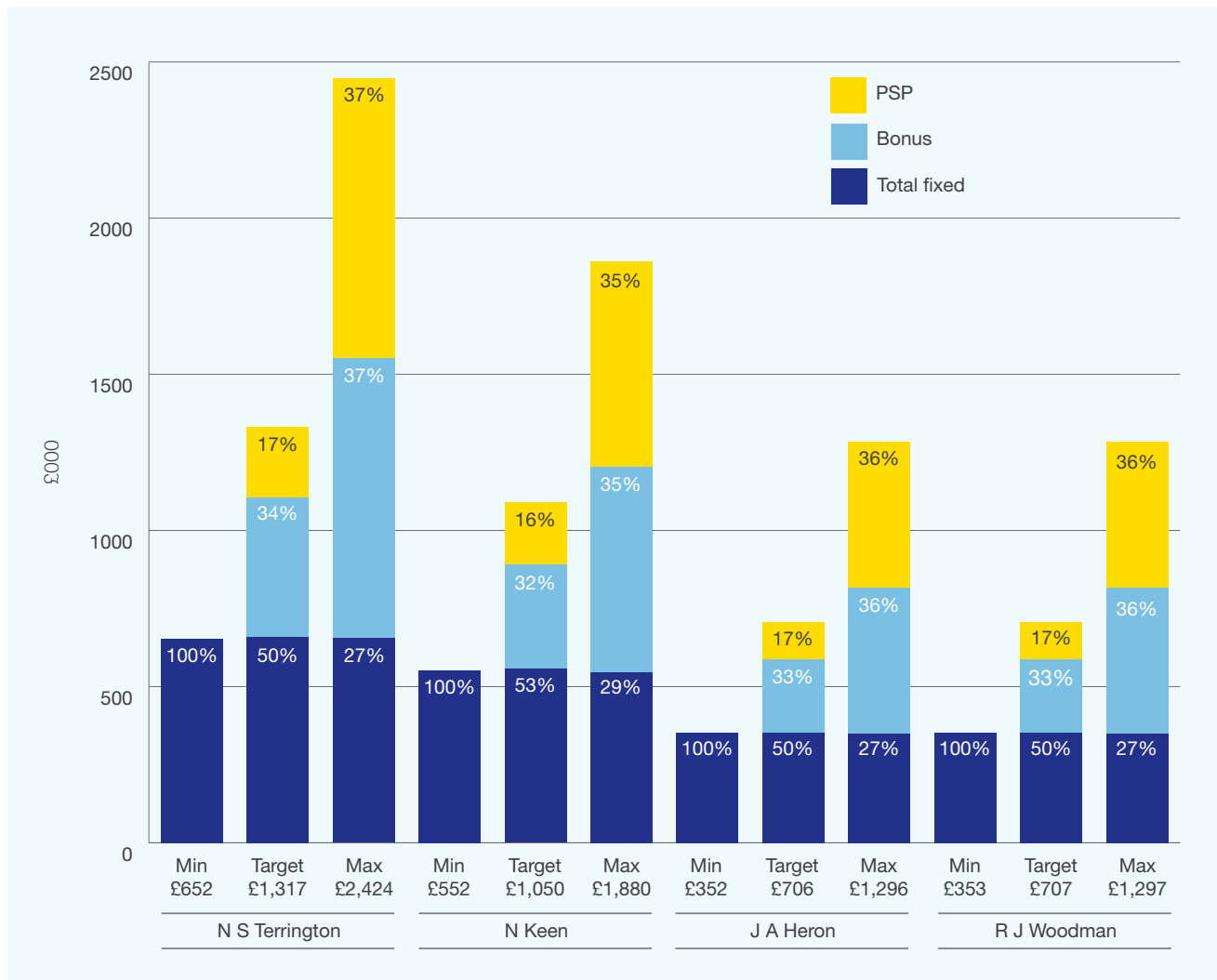
B3.2 Policy report continued

- Adjustments required in certain circumstances (e.g. change of control, rights issues, corporate restructuring, events and special dividends);
- Good/bad leaver status for incentive plan purposes and the appropriate treatment chosen; and
- The annual performance measures weighting, and targets for the annual bonus plan, PSP and MSP from year to year.

If an event occurs which results in the annual bonus or LTI performance conditions and/or targets being deemed no longer appropriate (i.e. a material acquisition or divestment) then the Committee will have the ability to adjust the measures and/or targets and alter weightings so that the conditions are not materially less difficult to satisfy.

Illustrations of the application of the remuneration policy

The chart below illustrates the remuneration opportunity provided to each executive director at different levels of performance for the coming year:



In developing the above scenarios the following assumptions have been used:

Total fixed pay is based on the latest salary, benefits and pension allowances (including both the accrual under the defined benefit scheme and the cash supplement), with the amounts being calculated on a basis consistent with those shown in the single total figure of remuneration table for the year ended 30 September 2013.

	Salary £000	Benefits £000	Pension £000	Total fixed £000
N S Terrington	443	14	195	652
N Keen	332	18	202	552
J A Heron	236	11	105	352
R J Woodman	236	12	105	353

Target is based on what each director would receive if performance was in line with targets. Annual bonuses pay out at 50% of the maximum for on-target performance. At median performance PSP awards would vest at 25%.

Maximum is based on 100% of the annual bonus and 100% vesting of the PSP awards.

No share price appreciation has been included in the above analysis.

As Sharesave awards are provided on an all employee basis they have not been included in the above analysis.

Choice of performance measures and approach to target setting

The choice of the performance measures applicable to the annual bonus scheme reflect the Committee's belief that incentives should be appropriately challenging and tied to the achievement of both forward and backward-looking financial objectives, risk metrics and specific individual objectives linked to the Company's strategy.

The Committee reviews the measures each year and varies them as appropriate to reflect the priorities for the business in the year ahead. A sliding scale of targets is set for each measure to encourage continuous improvement and challenge the delivery of above-target performance.

The PSP and MSP are subject to a combination of relative TSR and EPS growth measures. EPS is considered appropriate as the activities of the Company in developing its new lending and other income streams should result in improvements to profitability and including a profit measure such as EPS will be reflective of long term performance. It also provides a balance to relative TSR, which considers shareholder value creation and is a measure of market expectations of future performance.

The use of relative TSR and EPS growth in the LTIs provides a combined focus on the Group's financial performance and shareholder value creation. Targets for EPS are set by reference to internal budgeting plans and external market expectations. TSR targets are set on a standard practice, median to upper quartile ranking range. Only 25% of the award is payable for threshold levels of performance.

Policy on recruitment and promotion

Salaries for newly recruited directors will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role. If it is considered appropriate to appoint a new director on a below market salary (for example, to allow the director to gain experience in the role) the individual's salary may be increased to a market level by way of a series of above inflation increases over two to three years, subject to their performance and development in the role.

A new appointment would be offered benefits comparable to existing directors, as well as other reasonable expenses such as legal, tax equalisation and relocation costs (if necessary on a net of tax basis).

B3.2 Policy report continued

A new external appointment might be invited to participate in the defined benefit scheme on the same terms as those offered to existing directors. Alternatively a cash supplement may be offered to new appointments.

The prevailing maximum bonus opportunity for existing directors will not be exceeded for any newly recruited director and would be pro-rated to reflect the proportion of the year worked. It may be necessary to set different performance measures and targets initially, dependent on the timing of the appointment and the nature of the role taken up. Guaranteed bonuses will not be offered.

LTI awards will be granted in line with the policy outlined for existing directors, with the same maximum opportunity for any newly recruited director. Awards may be granted shortly after an appointment (subject to the Company not being in a prohibited period).

Current entitlements (for example, bonus and share awards) which will lapse on the executive's departure from a previous position may be replaced with awards that have no shorter time horizons, are subject to performance conditions (if replacing awards subject to performance conditions) and do not have a higher theoretical fair value. The Committee retains flexibility to do so on such basis as it deems appropriate in the circumstances.

In the event that an existing employee is promoted to the Board, any contractual commitments made to the employee prior to such promotion will continue to be honoured even if they would not otherwise be consistent with the policy prevailing when the commitment is fulfilled.

Current service contracts and terms of engagement

The Chairman and executive directors hold one year rolling contracts in line with current market practice and the 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, 30 October 2001 and 10 March 2010)
N Keen	-	6 February 1996 (amended 30 October 2001 and 10 March 2010)
J A Heron	-	1 September 1990 (amended 14 January, 8 February 1993 and 10 March 2010)
R J Woodman	-	8 February 1996 (amended 10 March 2010)

In the event of early termination, the directors' contracts provide for the payment of one year's salary, benefits, pension and bonus in lieu of notice at the Company's option, payable on termination. No provision exists for additional compensation in the event of termination due to a change of control of the Company. These arrangements will continue to be honoured as they are contractual obligations of the Company.

All new executive directors externally appointed in future will have service contracts that are terminable by the Company on a maximum of twelve months' notice, subject to a payment of salary, benefits and pension. Provisions will be included in each new contract permitting the Company to make any termination payments by instalments, and requiring directors to mitigate their loss in such circumstances.

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

Executive directors may accept an external non-executive appointment with the approval of the Board. Any fees earned are retained by the executive. None of the executive directors currently earns remuneration from external non-executive appointments.

Current terms of engagement for the non-executive directors apply for the following periods:

E A Tilly	-	1 April 2011 to 1 April 2014
A K Fletcher	-	25 February 2012 to 25 February 2015
P J N Hartill	-	11 February 2011 to 11 February 2014
F J Clutterbuck	-	12 September 2012 to 12 September 2015

Non-executive director appointments are for three years unless terminated earlier by, and at the discretion of, the director or the Company upon three months' notice.

Policy on termination payments

The provisions of the executive directors' service contracts (as noted above) will determine their entitlement to salary, benefits, pension and bonus as compensation for loss of office. Specific change of control provisions or entitlements to enhanced redundancy payments would be excluded.

Any statutory entitlements or sums to settle or compromise claims in connection with the termination would be paid as necessary. In specific circumstances, outplacement services and relocation expenses may be provided at normal market rates for directors.

For current executive directors, any entitlement to a bonus on termination would be based on an assessment of the performance over the period.

For a new appointment, bonuses are normally only payable where the individual remains employed and is not under notice at the payment date. However, in certain good leaver situations (injury or disability, redundancy, employment transferred outside the Group, or any other reason the Committee decides) a bonus may be payable at the Committee's discretion, based on an assessment of the performance of the individual and the Company over the period of the bonus year worked.

The treatment of share based incentive awards will be determined by the Committee based on the relevant rules of the plan.

The default treatment for outstanding unvested PSP awards will be that they lapse on cessation of employment. In certain circumstances the Committee may determine a good leaver status, whereby an award shall continue on its original terms, until the normal vesting date unless the Committee decides it shall vest on the date of cessation subject to time pro-rating and assessment of the performance conditions. The Committee may disapply time pro-rating if it considers the reduction is inappropriate. If a participant dies before the normal vesting date the Committee may allow early vesting of the award, unless it considers it appropriate to continue to the normal vesting date. Awards are subject to time pro-rating and assessment of the performance conditions unless the Committee considers the reduction by time pro-rating to be inappropriate, whereby it can be disapplied.

The default treatment for outstanding unvested MSP awards will be that they lapse on cessation of employment. In certain circumstances the Committee may determine a good leaver status, whereby an award shall continue on its original terms, until the normal vesting date unless the Committee decides it shall vest on the date of cessation subject to time pro-rating and assessment of the performance conditions. The Committee may disapply time pro-rating if it considers the reduction is inappropriate. If a participant dies before the normal vesting date the award shall vest in full on the date of cessation.

For awards granted under the deferred share bonus plan, good leaver status would result in awards vesting on the date of cessation unless the Committee determines they should continue to the normal vesting date.

On determination of a good leaver status or as the result of a death, then awards under all plans may be exercised within twelve months of the date of vesting.

B3.2 Policy report continued

Consideration of employment conditions elsewhere in the Group

Directors and senior executives participate in the annual bonus scheme, which is designed to incentivise executives to achieve specific, predetermined goals, reward individual performance and encourage retention through deferral of a proportion of the bonus. All members of staff whose performance has been exceptional are eligible for a discretionary bonus.

Directors and senior staff are eligible to participate in the PSP and the MSP, although no awards have been made under the MSP since January 2010 and the Remuneration Committee has no current intention of making any further grants during the current financial year or, other than in exceptional circumstances, before the expiry of the MSP in 2016. The two plans are in place to encourage the long-term retention of key executives who are considered to have the potential to influence shareholder value creation and awards are not offered to the wider staff.

Staff below director and head of function level are eligible to participate in the Group's profit related pay scheme, which pays out a flat sum to all eligible staff based on a percentage of the Group's profits.

The Group's 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) for directors and certain senior executives, whereas the accrual rate for other members of staff who are members of the Paragon Pension Plan is 1/60. The Plan was closed to new entrants in 2002 and participation in a stakeholder defined contribution scheme was offered to new employees from that date.

In determining pay levels for the employees as a whole, the Group annually considers externally provided benchmark levels for comparable jobs as well as individual development and performance. The general level of increase resulting from this review informs the Committee's deliberations on appropriate pay levels for the executive directors, together with external data specific to their roles which is used to ensure that the levels of remuneration are appropriate.

The Committee does not formally consult employees on executive remuneration. However, they have the opportunity to make comments on any aspect of the Company's activities through employee forums and surveys and their comments are considered by the Committee.

Consideration of shareholders' views

The Committee considers shareholder feedback received in relation to the AGM each year at a meeting shortly following the AGM. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Company's annual review of remuneration policy.

In addition, the Chairman of the Committee and the Chairman of the Company regularly engage directly with major shareholders and their representative bodies and report their views back to the Committee, who take them into account when formulating any material changes to the remuneration policy.

Details of votes cast for and against the resolution to approve last year's remuneration report and any matters discussed with shareholders during the year are set out in the Annual Report on Remuneration.

Legacy arrangements

For the avoidance of doubt, in approving this Policy Report, authority is given to the Company to honour any commitments entered into with current or former directors (such as the payment of pension or the unwinding of legacy share schemes) that have or will have been disclosed to shareholders in remuneration reports before the Policy takes effect. Details of any payments to former directors will be set out in the Annual Report on Remuneration as they arise.

B3.3 Annual report on remuneration

B3.3.1 Application of policy

The information provided in this part of the Directors' Remuneration Report is not subject to audit

Consideration by directors of matters relating to directors' remuneration

Remuneration Committee

During the year, the Committee consisted of Alan Fletcher (who chaired the Committee), Fiona Clutterbuck, Peter Hartill and Edward Tilly, all of whom were independent non-executive directors, and the Chairman of the Company, 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 has appointed New Bridge Street ('NBS'), a brand of AON plc, as its independent advisor on remuneration matters and retained their services throughout the year. NBS is a member of the Remuneration Consultants Group and has signed up to its Code of Conduct. NBS also advised the Company on various sundry remuneration matters during the year, which did not conflict with its advice to the Committee. In evaluating the independence of NBS the Committee considered the following:

- other services provided to the Company and the fees paid by it to the advisor's wider group, Aon Hewitt;
- fees paid to NBS as a percentage of their wider group's total revenues in the year;
- the policy of NBS to prevent conflicts of interest;
- whether there were any relationships between NBS and any member of the Committee;
- whether there were any shares in the Company owned by the NBS or their wider group; and
- any business or personal relationships between the NBS or their wider group and any senior executive of the Company.

Aon Hewitt provided administration services to the corporate Trustee of the Group Retirement Benefits Plan during the year but given the independence of the Trustee this is not considered to be advice to the Board.

NBS have written to the Committee Chairman to confirm their position on these matters. Its total fees for the year ended 30 September 2013 were £109,000 (2012: £98,000), which were charged on the basis of the work carried out by them.

B3.3 Annual report on remuneration continued

Application of remuneration policy for the year ending 30 September 2014

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 periodic objective research which gives up-to-date information on comparable FTSE-250 companies.

In view of the progress made by the Group during the year, the Committee has agreed that the Chairman's fee and executive directors' salaries will be increased by 2.0% from 1 October 2013. This is in line with increases for the Group's wider workforce.

The current salaries of the Chairman and the executive directors with effect from 1 October 2013 are as follows:

• R G Dench	£207,000
• N S Terrington	£443,450
• N Keen	£332,000
• J A Heron	£236,400
• R J Woodman	£236,400

The non-executive directors' fees have remained unchanged since 1 October 2012 and are as follows:

• Base fee	£45,000
• Additional fee for Senior Independent Director	£15,000
• Additional fee for chairmen of committees	£15,000

The additional fee for chairmen of committees is currently payable to the Chairmen of the Remuneration and Audit and Compliance Committees, but would be payable for the chairmanship of such additional Committees as should be authorised by the Board.

The total fees payable to non-executive directors are restricted to £250,000 by the Company's Articles of Association. During the year the Board reviewed this level and concluded that it may not be adequate to meet the Company's future needs. Accordingly a resolution to increase this limit to £400,000 will be proposed at the forthcoming Annual General Meeting.

In addition to fees earned as a non-executive director, Mr A K Fletcher serves as a director of the Trustee board of the Paragon Pension Plan and receives £10,000 per annum in respect of that appointment from Paragon Finance plc, the sponsoring company of the Plan and a subsidiary of the Company.

Pension contributions

The executive directors are members of the Group Retirement Benefits Plan (the 'Plan'), to which the Company contributes at the same rate as for all members. Dependants of executive directors who are members of the 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.

As described below the executive directors have each ceased pension accrual in return for a cash supplement calculated to equate to the cost of the Company's contributions towards future service benefits had each individual stayed within the Plan for his future service accrual.

There are no unfunded promises or similar arrangements for directors.

Benefits

Executives are entitled to family cover private medical health cover, life insurance cover of up to four times their salary and a car allowance of up to £12,000 per annum.

Performance bonuses

The purpose of the bonus is to provide a meaningful cash incentive focused on improving the performance of the Company through the achievement of a number of predetermined objectives. The annual bonus is non-pensionable.

The bonus payable to executive directors under the bonus scheme is capped at 200% of salary. A target level of 100% of salary is awarded for delivery of the base business plan and agreed objectives, with achievement of the planned profit level forming a major element.

For the year ending 30 September 2014, the annual bonus will be based on performance against the following performance measures: (1) operational profit, (2) future value of new business and (3) risk, each with equal weightings together with each director's performance against strategic and personal objectives, which will determine the level of a scale factor of between 0.5 and 1.5 times.

The Committee has chosen not to disclose, in advance, the performance targets for the forthcoming year as these are felt to be commercially sensitive. Retrospective disclosure of the targets and performance against them will be set out in next year's Annual Report on Remuneration except to the extent that any measure/target remains commercially sensitive.

25% of amounts awarded in excess of £50,000 are deferred, to be payable in shares (together with the aggregate amount of accrued dividend thereon), after three years, net of any clawback applied (see below). The Committee may require higher levels of deferment.

A clawback mechanism applies to all participants in the event of misconduct or a material misstatement of the Group's accounts.

Share awards

Executive directors are eligible for awards under the PSP and are entitled to participate in 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. Awards over shares with a market value of 200% of salary will be granted to the executive directors in the year to 30 September 2014.

50% of awards are subject to the TSR test and 50% are subject to an EPS test.

The TSR test compares the rank of the Company's TSR against a comparator group of companies comprising the constituents of the FTSE-250 Index, excluding investment trusts, on the date of grant over the three years commencing on the date of grant. 25% of awards vest for median performance, increasing on a straight line basis to full vesting for upper quartile performance. The FTSE-250 has been chosen because it is a broad-based index and because of the lack of comparable listed financial services organisations at the current time. The Committee believes that TSR usefully aligns the long-term performance conditions with the best interests of the shareholders.

The EPS test provides that 25% of EPS tested awards will vest where EPS growth is equal to the increase in the retail price index plus 3%, increasing on a straight line basis to full vesting for EPS growth equal to the increase in the retail price index plus 7% or more. In addition, prior to any awards vesting, the Committee must be satisfied that the requirements of a financial underpin test have been met.

Paragon Matching Share Plan ('MSP')

The Committee does not intend to grant any awards in the year ending 30 September 2014.

B3.3 Annual report on remuneration continued

B3.3.2 Directors' remuneration for the year ended 30 September 2013

The information provided in this section has been audited

Single total figure of remuneration for each director

The following tables have been prepared using the measures prescribed by The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

In accordance with the Regulations, the amounts shown in respect of pension accrual have been calculated by applying a factor of 20 to the increase in accrued pension, after adjusting for inflation, whilst the values shown for share awards vesting in the year have been calculated on the basis of the share price at the vesting date, which may not necessarily equate to the price at which the awards have been or may be exercised.

Year ended 30 September 2013

	Fixed remuneration				Variable remuneration				Total
	Salaries and fees	Allowances and benefits	Pension allowance	Pension accrual	Cash bonus	Deferred bonus	Dividend on vested deferred bonus	Share awards	
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Chairman									
R G Dench	203	12	-	-	-	-	-	-	215
Executive directors									
N S Terrington	435	14	165	27	567	172	7	1,268	2,655
N Keen	325	18	198	-	427	126	5	949	2,048
J A Heron	232	11	88	15	277	75	3	675	1,376
R J Woodman	232	12	103	-	314	115	4	641	1,421
Non-executive directors									
E A Tilly	60	-	-	-	-	-	-	-	60
A K Fletcher	60	-	-	-	-	-	-	-	60
P J N Hartill	60	-	-	-	-	-	-	-	60
F J Clutterbuck	45	-	-	-	-	-	-	-	45
Total	1,652	67	554	42	1,585	488	19	3,533	7,940

Year ended 30 September 2012

	Fixed remuneration				Variable remuneration				Total
	Salaries and fees	Allowances and benefits	Pension allowance	Pension accrual	Cash bonus	Deferred bonus	Dividend on vested deferred bonus	Share awards	
	£000	£000	£000	£000	£000	£000	£000	£000	
Chairman									
R G Dench	197	12	-	-	-	-	-	-	209
Executive directors									
N S Terrington	422	14	150	-	566	172	-	1,241	2,565
N Keen	316	19	192	-	427	126	-	929	2,009
J A Heron	225	11	78	-	223	58	-	662	1,257
R J Woodman	149	8	61	-	322	128	-	567	1,235
Non-executive directors									
E A Tilly	47	-	-	-	-	-	-	-	47
A K Fletcher	50	-	-	-	-	-	-	-	50
P J N Hartill	50	-	-	-	-	-	-	-	50
F J Clutterbuck	2	-	-	-	-	-	-	-	2
Total	1,458	64	481	-	1,538	484	-	3,399	7,424

Mr R J Woodman was appointed on 9 February 2012 and Ms F J Clutterbuck was appointed on 12 September 2012.

Allowances and benefits includes benefits in kind, comprising private health cover, fuel benefit, life assurance and company car provision. The company car allowance paid to executive directors (£10,000 - £12,000) is also included in allowances and benefits.

Dividend is the accrued dividend paid on deferred bonuses which vested during the year.

Remuneration in respect of share awards is calculated by multiplying the number of shares vesting during the year by the mid-market closing price of the shares on the vesting date.

The link between pay and performance - Annual bonus for the year ended 30 September 2013

The annual bonus for the year under review was based on performance against financial and risk measures; performance against each of these measures is then subject to individual scale factors according to performance against personal strategic objectives. The performance for the year, and the resulting accrual levels, were as follows:

	Measure	Weighting	Outcome	Award level*
Financial performance	Adjusted operating profit	33.33%	£104.1m	18%
Future value of new business	Projected profits from lending activities transacted in the year and projected residual cashflow from acquired portfolios	33.33%	BTL lending £359.8m	30%
			Idem investments £92.8m	
Risk	The business having operated within the key risk tolerance levels agreed by the Board	33.33%	See below	28%
Totals		100%*	Bonus achieved for 2013	76%*

*Of maximum under scheme, subject to individual performance scale factors of 0.5 to 1.5 times.

B3.3 Annual report on remuneration continued

Financial performance

Operating profit for the year has exceeded the targeted level of £102.0 million and cash generation from the originated and acquired portfolios was at strong levels. Firm control was maintained over costs, despite the costs associated with the banking licence application and the impact of the increased share price on share based costs.

Future value

Buy-to-let lending volumes were, at £359.8 million, well in excess of the target, with margins broadly in line with target. In addition to the buy-to-let volumes completed, the business ended the financial year with a strong pipeline of £231.9 million for future completions.

Acquisitions by Idem Capital, the Group's investment subsidiary, at £92.8 million, were also well in excess of target, placing Idem Capital at the core of the market. The business is also widening its franchise on the back of deals completed to date.

Risk

The Group has operated within the risk tolerance levels approved by the Board in respect of capital ratios, liquidity positions, the risk appetite of new business, the management of operational risk, the development of plans to mitigate longer-term strategic risk, and the management of regulatory risk. During the year complaint levels have been minimal, arrears levels remain low by industry averages, funding sources have been further diversified, liquidity has been strong and comfortably in excess of policy limits and capital ratios are highly prudent.

Target business volume figures are not disclosed for the year because the Committee believes that disclosure of targeted margins, arrears levels, volumes, cash plans and funding assumptions would provide competitors with information which would put the future of the business at risk. Accordingly the Committee considers that such information is commercially sensitive.

The final level of each executive director's bonus is adjusted to reflect personal performance against strategic objectives related to each of the elements. These individual performance scale factors are between 0.5 and 1.5 times, according to performance. The objectives for the year ended 30 September 2013 were as follows:

N S Terrington and N Keen

Working within the parameters of the Group's risk appetite, to deliver the planned financial performance for the year, whilst ensuring future profit streams and strategic delivery position the Group to meet its longer term goals.

J A Heron

The Committee, with advice from the Chief Executive, assessed the performance of the director with reference to the following objectives:

- First Mortgage business to:
 - Achieve target operating profit
 - Achieve target new lending volumes
 - Improve application conversion rates
- Oversee bank authorisation project
- Manage resource levels to meet immediate and longer-term strategic requirements

R J Woodman

The Committee, with advice from the Chief Executive, assessed the performance of the director with reference to the following objectives:

- Idem division to:
 - Achieve target operating profit
 - Achieve target return rate
 - Raise profile and investor/market awareness of Idem Capital
 - Develop and embed operational and migration capacity along with governance, compliance and reporting capabilities
- Maintain and lead corporate merger and acquisition activities
- Effectively manage the Business Analysis and Planning division
- Provide support to the project to establish a banking subsidiary

Performance against the objectives is assessed by the Committee at the end of the year (with input from the Chief Executive as appropriate). Each objective is scored from 0 to 4, with target scale factor being for a score of 2, equating to a scale factor of 1.0 times, as set out in the table below:

Scale factor	Average score	Performance
0.50	0	Poor
0.75	1	Below target
1.00	2	Target
1.25	3	Above target
1.50	4	Exceptionally good

The Committee, having considered individual performance against the objectives set at the beginning of the year, has agreed the following scale factors for the year ended 30 September 2013:

N S Terrington	1.12
N Keen	1.12
J A Heron	1.00
R J Woodman	1.22

The resulting bonuses for 2013, after applying the scale factors to the award levels, were as follows:

Executive	Financial performance (max 33%)	Future value of new business (max 33%)	Risk (max 33%)	Scale factor times	Total (percentage of max capped at 100%)	Total £000	Cash £000	Share value £000
N S Terrington	18%	30%	28%	1.12	85.0%	739	567	172
N Keen	18%	30%	28%	1.12	85.0%	553	427	126
J A Heron	18%	30%	28%	1.00	76.0%	352	277	75
R J Woodman	18%	30%	28%	1.22	92.5%	429	314	115

The maximum bonus entitlement is 200% of salary.

25% of amounts awarded in excess of £50,000 are deferred, to be payable in shares after three years, net of any clawback applied (see below). For Mr Woodman, this policy applies to his bonus up to and including 150% of his salary, with the amount in excess of 150% being subject to 50% deferral. No further performance conditions apply to the deferred shares.

A clawback mechanism applies to all participants in the event of misconduct or a material misstatement of the Group's accounts.

The Committee is satisfied that the level of bonus earned by each director reflects both the performance of the individual and the Group during the year.

B3.3 Annual report on remuneration continued

Directors' pensions

The total amount charged to the profit and loss account of the Group in respect of pension provision for directors was £555,000 (2012: £480,000).

Mr N S Terrington, Mr N Keen, Mr J A Heron and Mr R J Woodman were members of the Group defined benefit pension plan during the year.

The amounts shown below describe their entitlement in accordance with paragraph LR 9.8.8(12) of the Listing Rules.

	Normal Retirement date	Increase / (decrease) in accrued pension during year excluding any increase for inflation £000	Transfer value of increase / (decrease) less directors' contributions £000	Accumulated total accrued pension at 30 September 2013 £000	Accumulated total accrued pension at 30 September 2012 £000
N S Terrington	13/12/2019	1	14	167	162
N Keen	13/01/2018	-	-	97	94
J A Heron	04/01/2019	-	7	94	92
R J Woodman	10/05/2025	-	-	58	56

The pension entitlement shown is that which would be paid annually on retirement based on service to the following dates on which the director elected to suspend future benefit accrual within the plan: Messrs Terrington and Heron, 6 April 2006; Mr Woodman, 9 October 2007; and Mr Keen, 1 April 2011.

The pension entitlements for Messrs Terrington and Heron continue to be linked to pensionable salaries, while Messrs Keen and Woodman elected on 1 April 2011 that their benefits would no longer be linked to pensionable salaries and their accrued pension figures have, therefore, been calculated based on a date of leaving of 1 April 2011 with deferred pension revaluation, where relevant.

The increase in accrued pension during the year (and transfer value of the increase) excludes any increase for RPI inflation which is used for applying deferred pension revaluation (which is capped at 5.0% per annum over the whole period of revaluation if relevant). The increase in RPI inflation used to calculate the accrued pensions as at 30 September 2012, for those members who elected to remove the link to increases in pensionable salary from 1 April 2011 was capped at 5% for consistency with the deferred revaluation applied to the accrued pension over a one year period to 2012. This year, the deferred revaluation applying over the two year period to 2013 is not capped, (as RPI inflation has been less than 5% per annum on average) and therefore the increase in accrued pension over the year includes the 'catch-up' from the capping applied last year. As such the accrued pension has increased by more than the one year increase in RPI inflation, however the increase in accrued pension net of any increase for inflation is shown as nil. This is consistent with the treatment in the previous year.

The transfer values have 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 plan have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

The transfer values disclosed above do not represent a sum either paid or currently payable to the individual director by the Group or the scheme. Instead they represent a potential liability of the pension scheme should the director request a transfer, calculated at the balance sheet date.

The pension accrual figure included in the single total figure of remuneration table represents the increase in the accrued pension, excluding the effect of CPI inflation, during the year multiplied by 20, in accordance with the methodology set out in the Regulations. The increase in accrued pension excluding inflation in the table above, being as it is calculated using the RPI based methodology described, is not directly comparable.

During the year the Group made contributions in respect of further pension provision of £165,000 (2012: £150,000) for Mr Terrington, £198,000 (2012: £192,000) for Mr Keen, £88,000 (2012: £78,000) for Mr Heron and £103,000 for Mr Woodman (2012: £61,000 following his appointment) and these amounts are shown as 'pension allowance' in the single total figure of remuneration table.

Details of share-based awards

Awards granted in January 2010 under the Group's LTIs (the PSP and MSP) which vested during the year were subject to performance conditions measured over three financial years, comparing the Group's relative TSR performance 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. The vesting percentage was then reviewed by the Committee against a financial underpin. The Company was ranked above the upper quartile position, giving a 100% vesting percentage and the Committee determined that such level of vesting was consistent with the Company's financial performance.

B3.3 Annual report on remuneration continued

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 grant to the extent that the applicable performance criteria have been satisfied.

The awards granted during the year were calculated so as to have a face value of 200% of salary, using the average closing mid-market price of the Company's shares on each of the five dealing days up to and including the day before the grant date. Therefore the face value of the awards granted during the year (being the number of shares in each case multiplied by £3.1192, that being the average of the closing prices of the Company's shares at the end of each of the five dealing days ending on the day before the grant date) were £869,500 for Mr Terrington, £651,000 for Mr Keen, and £463,500 for each of Mr Heron and Mr Woodman.

Details of individual entitlements of the directors under the PSP at 30 September 2012, and 30 September 2013 are:

Award date	Date from which exercisable	Expiry date	Market price at award date	N S Terrington Number	N Keen Number	J A Heron Number	R J Woodman Number
Awards outstanding at 30 September 2012							
29/09/2008	29/09/2011	29/09/2018	66.50p	278,286	-	-	-
21/05/2009	21/05/2012	21/05/2019	70.00p	844,286	632,143	450,000	385,714
04/01/2010	04/01/2013	04/01/2020	135.20p	451,145	337,786	240,458	206,107
17/12/2010	17/12/2013§	16/12/2020	182.00p	450,661	337,424	240,200	205,886
21/12/2011	21/12/2014§	20/12/2021	176.90p	480,912	360,114	256,410	219,943
				<u>2,505,290</u>	<u>1,667,467</u>	<u>1,187,068</u>	<u>1,017,650</u>
Awards made in the year:							
28/02/2013	28/02/2015‡	27/02/2023	321.2p	278,757	208,707	148,595	148,595
Awards exercised in the year:							
On 18 December 2012							
29/09/2008	29/09/2011	29/09/2018	66.50p	(278,286)	-	-	-
21/05/2009	21/05/2012	21/05/2019	70.00p	(411,616)	(457,198)	(450,000)	-
On 5 August 2013							
21/05/2009	21/05/2012	21/05/2019	70.00p	-	(174,945)	-	-
04/01/2010	04/01/2013	04/01/2020	135.20p	-	(337,786)	-	-
On 13 August 2013							
21/05/2009	21/05/2012	21/05/2019	70.00p	(432,670)	-	-	-
04/01/2010	04/01/2013	04/01/2020	135.20p	(317,330)	-	-	-
Awards lapsing in the year:							
				-	-	-	-
At 30 September 2013				<u>1,344,145</u>	<u>906,245</u>	<u>885,663</u>	<u>1,166,245</u>

§ 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, excluding investment trusts, 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.

‡ 50% of these awards are subject to the TSR test, as above, and 50% are subject to an EPS test. The EPS test provides that 25% of EPS tested awards will vest where EPS growth is equal to the increase in the retail price index plus 3%, increasing on a straight line basis to full vesting for EPS growth equal to the increase in the retail price index plus 7% or more.

The share prices at the exercise dates were £2.577 on 18 December 2012, £3.2992 on 5 August 2013 and £3.421 on 13 August 2013.

The awards maturing during the year, granted on 4 January 2010, achieved 100% vesting after the application of the performance criteria.

Awards are exercisable from the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied to the tenth anniversary of the grant date.

Share option schemes

Details of individual options held by the directors at 30 September 2012 and 30 September 2013 are:

Award date	Date from which exercisable	Expiry date	Option price	N S Terrington	N Keen	J A Heron	R J Woodman
				Number	Number	Number	Number
Awards outstanding at 30 September 2012							
14/03/2003	14/03/2006	14/03/2013	297.30p	119,848	87,161	41,269	34,666
18/12/2003	18/12/2006	18/12/2013	540.40p	61,527	46,261	25,906	21,280
01/12/2004	01/12/2007	01/12/2014	555.34p	68,874	51,656	27,730	22,778
				<u>250,249</u>	<u>185,078</u>	<u>94,905</u>	<u>78,724</u>
Awards exercised in the year:				-	-	-	-
Awards surrendered in the year: 6 March 2013							
14/03/2003	14/03/2006	14/03/2013	297.30p	(119,848)	(87,161)	(41,269)	(34,666)
Awards lapsing in the year:				-	-	-	-
At 30 September 2013				<u>130,401</u>	<u>97,917</u>	<u>53,636</u>	<u>44,058</u>

In the interests of administrative efficiency, given the relatively low amount of gain relative to the share price, the options awarded on 14 March 2003 were surrendered in return for a payment equal to the difference between the closing mid price of the shares of the Company on the preceding day, £3.250 per share, and the exercise price.

B3.3 Annual report on remuneration continued

Deferred Bonus Shares

Details of individual entitlements of the directors to Deferred Bonus Shares at 30 September 2012 and 30 September 2013 are:

Award date	Date from which exercisable	Expiry date	Market price at award date	N S Terrington Number	N Keen Number	J A Heron Number	R J Woodman Number
Awards outstanding at 30 September 2012							
11/01/2010	01/10/2012	30/09/2013	130.60p	60,098	42,802	27,952	38,435
20/01/2011	01/10/2013	30/09/2014	184.00p	82,248	59,672	40,288	33,446
21/12/2011	01/10/2014	30/09/2015	172.63p	108,198	78,952	36,117	44,980
				<u>250,544</u>	<u>181,426</u>	<u>104,357</u>	<u>116,861</u>
Awards made in the year:							
23/11/2012	01/10/2015	30/09/2016		83,297	60,854	27,977	62,003
Awards exercised in the year:							
11/01/2010	01/10/2012	30/09/2013	130.60p	(60,098)	(42,802)	(27,952)	(38,435)
At 30 September 2013				<u>273,743</u>	<u>199,478</u>	<u>104,382</u>	<u>140,429</u>

The Deferred Bonus Shares awarded can be exercised for one year from the vesting date. The vesting date is the third anniversary of the start of the financial year in which the grant is awarded.

The face value of the awards granted during the year (being the number of shares in each case multiplied by £2.0664, that being the average of the closing prices of the Company's shares at the end of each of the final five dealing days in September 2012) were £172,125 for Mr Terrington, £125,750 for Mr Keen, £57,812 for Mr Heron and £128,125 for Mr Woodman.

The awards exercised in the year were exercised on 18 December 2012, when the share price was £2.577.

Rights to the following shares are due to be granted in respect of the compulsory deferral of performance bonuses for the year ended 30 September 2013. The shares, less any clawback, which can be applied by the Remuneration Committee in certain circumstances, will be exercisable by the recipients from the third anniversary of the grant date, subject to the recipient being employed by the Company at that time:

N S Terrington	55,302
N Keen	40,397
J A Heron	24,258
R J Woodman	36,906

Matching Share Plan

The individual interests of the directors in the MSP at 30 September 2012 and 30 September 2013 are:

Award date	Market price at award date	N S Terrington Number	N Keen Number	J A Heron Number	R J Woodman Number
Awards outstanding at 30 September 2012					
05/01/2010§	133.40p	43,249	32,422	22,868	43,808
		43,249	32,422	22,868	43,808
Awards made in the year:					
		-	-	-	-
Awards exercised in the year:					
05/01/2010§	133.40p	-	(32,422)	-	-
Awards lapsing in the year:					
		-	-	-	-
At 30 September 2013		43,249	-	22,868	43,808

§ These awards were 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.

No awards were granted under the MSP during the year ended 30 September 2013.

The awards maturing during the year, granted on 5 January 2010, achieved 100% vesting after the application of performance criteria.

The awards exercised during the year were exercised on 5 August 2013 when the price of the Company's shares was £3.2992 per share.

Awards are exercisable from the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied to the tenth anniversary of the grant date.

B3.3 Annual report on remuneration continued

Directors' interests in shares

The interests of the executive directors in the shares of the Company at 30 September 2013 were:

	N S Terrington Number	N Keen Number	J A Heron Number	R J Woodman Number
Unvested awards subject to vesting conditions				
PSP	1,210,330	906,245	645,205	574,424
Unvested awards not subject to vesting conditions				
Deferred bonus scheme	273,743	199,478	104,382	140,429
Total unvested awards	1,484,073	1,105,723	749,587	714,853
Vested awards				
Options	130,401	97,917	53,636	44,058
PSP	133,815	-	240,458	591,821
MSP	43,249	-	22,868	43,808
Total vested awards	307,465	97,917	316,962	679,687
Total outstanding awards	1,791,538	1,203,640	1,066,549	1,394,540
Shares beneficially held	647,972	368,679	252,680	89,691
Total interest in shares	2,439,510	1,572,319	1,319,229	1,484,231
Awards exercised in the year				
PSP	1,439,902	969,929	450,000	-
MSP	-	32,422	-	-
Deferred bonus scheme	60,098	42,802	27,952	38,435
	1,500,000	1,045,153	477,952	38,435

The interests of the Chairman and the non-executive directors at 30 September 2013, which consist entirely of ordinary shares, beneficially held, were as follows:

	Number
R G Dench	117,000
E A Tilly	30,000
A K Fletcher	125,000
P J N Hartill	7,000
F J Clutterbuck	3,214

Share ownership guidelines

All executive directors are encouraged to hold a minimum number of shares in the Company with a value of 200% of their salary, calculated at 31 December each year on the basis of the average price of the Company's shares over a rolling three year period. During the year the Remuneration Committee increased the guideline holding from the previous level of 100% of salary and executive directors should aim to meet the increased requirement by 30 September 2015. For new appointments the guideline is 100% of salary in the first five years, increasing to 200% by the seventh anniversary of appointment. The number, net of income tax and national insurance, of shares granted under the Deferred Bonus Plan and vested but unexercised shares under the PSP and MSP count towards the aggregate shares held by each director in respect of the policy.

Guideline holdings and the actual shares held at 30 September 2013 are set out below:

	N S Terrington		N Keen		J A Heron		R J Woodman	
	100%	200%	100%	200%	100%	200%	100%	200%
Salary (£)	434,750	434,750	325,500	325,500	231,750	231,750	231,750	231,750
Average share price (p)†	172.675	172.675	172.675	172.675	172.675	172.675	172.675	172.675
Guideline holding (shares)	251,773	503,547	188,504	377,009	134,212	268,423	134,212	268,423
Beneficially owned shareholding	647,972		368,679		252,680		89,691	
Vested PSP and MSP (net of tax)	93,844		-		126,396		227,647	
Deferred Bonus Scheme (net of tax)	-		-		-		-	
Calculated holding at 30 September 2013	741,816		368,679		379,076		317,338	

† average share price over a rolling three year period.

At 30 September 2013, all of the executive directors' holdings were in accordance with guideline levels.

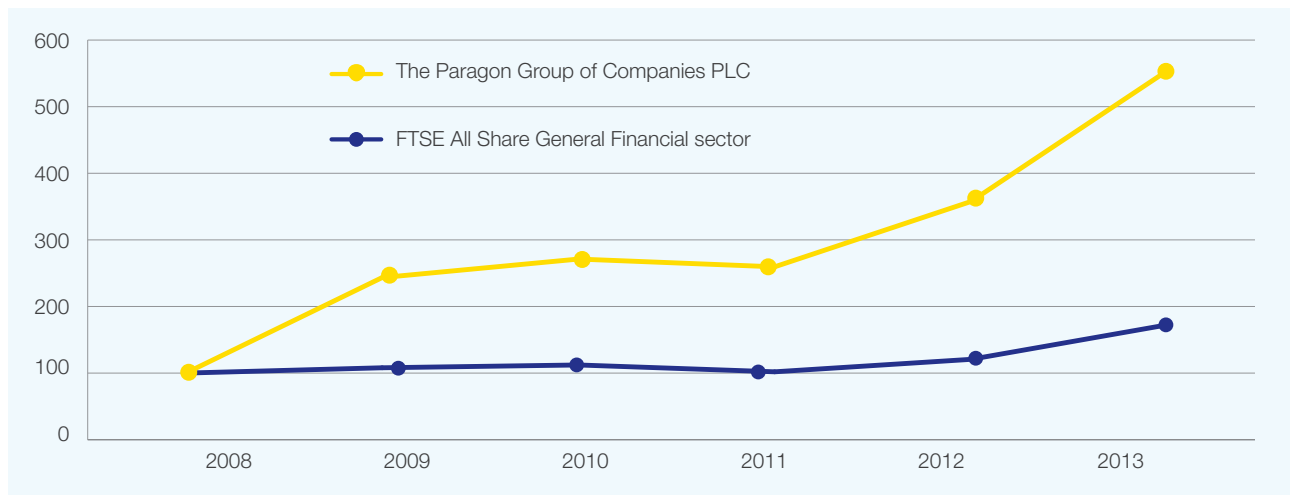
B3.3.3 Other information

The information provided in this section of the Directors' Remuneration Report is not subject to audit

Performance graph and table

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

Five Year Return Index for the FTSE All Share Financial sector as at 30 September 2013



This graph shows the value, by 30 September 2013, of £100 invested in The Paragon Group of Companies PLC on 30 September 2008, compared with £100 invested in the FTSE General Financial sector index. The other points plotted are the values at the intervening financial year ends.

Table of historic data

The following table shows the total remuneration, as defined by the Regulations, and the amount vesting under short term and long term incentives as a percentage of the maximum that could have been achieved, in respect of Mr Terrington, the Chief Executive.

Year	Single figure of total remuneration	Annual bonus against maximum opportunity	Long-term incentive rates against maximum opportunity
	£000	%	%
2013	2,655	85.0	100.0
2012	2,565	87.5	100.0
2011	2,382	87.5	58.6 and 85.1
2010	1,209	75.0	58.6
2009	932	50.0	-

Percentage change in the remuneration of the Chief Executive

The following table shows the change in the certain aspects of the remuneration of Mr Terrington:

Component	2013 £000	2012 £000	Change %
Salary	435	422	3.0
Benefits	14	14	-
Bonus	739	738	0.1

The Group's pay review taking effect on 1 October 2012 awarded average percentage increases in wages and salaries to employees as a whole of 2.6%.

The nature and level of benefits available to employees in the year ended 30 September 2013 was broadly similar to that in the previous year.

The total amount of bonus paid to employees, excluding the directors in respect of the year ended 30 September 2013 was 44.7% higher than in 2012, while the PRP pool distributed to employees other than directors and heads of function increased by 10.4% between the two years.

Relative importance of spend on pay

The Regulations require an illustration of the significance of the Group's expenditure on pay in the context of its operations. Set out below is a summary of the Group's levels of expenditure on pay and other significant cash outflows.

	Note	2013 £m	2012 £m	Change %
Wages and salaries	13	28.1	25.3	11.1
Dividend paid	44	20.7	12.3	68.3
Loan advances and investment in portfolios		448.1	299.7	49.5
Corporation tax paid	54	22.0	17.0	29.4

Loan advances and investment in portfolios is shown above as this the principal application of cash used to generate income for the Group. Corporation tax is contributed out of profit to the UK Government.

Consultations with shareholders and AGM voting

At the Annual General Meeting held on 7 February 2013, all resolutions were passed on a show of hands. Proxy votes lodged in respect of directors' remuneration were as follows:

Resolution	Votes for	% for	Votes against	% against	Discretion	Total votes cast	Votes withheld
Adopt remuneration report	197,889,600	96.1	7,915,353	3.8	24,242	205,829,195	876,060
Approve PSP	198,526,516	96.0	8,142,814	3.9	24,152	206,693,482	11,773

The most recent consultation between the Chairman of the Committee and the Chairman of the Group and major shareholders and their representative bodies took place during October 2013 and the views expressed by the shareholders have been taken into consideration in the development of the Policy Report and in the implementation of remuneration policy for the year.

B3.3.3 Annual report on remuneration continued

This Directors' remuneration report, section B3 of the Annual Report and Accounts, including both the Policy Report and Annual Report on Remuneration has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

ALAN K FLETCHER

Chairman of the Remuneration Committee
26 November 2013

B4. Directors' report

The directors of The Paragon Group of Companies PLC (registered number 2336032) submit their Report prepared in accordance with Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('Schedule 7'), which also includes additional disclosures made in accordance with the Listing Rules of the UK Listing Authority.

Directors and their interests

The directors of the Company during the year were:

R G Dench
N S Terrington
N Keen
J A Heron
R J Woodman
E A Tilly*
A K Fletcher*
P J N Hartill*
F J Clutterbuck*

* Non-executive directors.

The directors' interests in the shares of the Company are disclosed in the Directors' remuneration report in section B3. There have been no changes in the directors' interests in the share capital of the Company since 30 September 2013.

At 30 September 2013 Mr N Keen held £100,000 of the Company's 6% Sterling Notes due 2020, issued on 5 March 2013 (2012: £nil).

Other than as stated above the directors had no interests in securities issued by the Company. The directors have no interests in the shares or debentures of the Company's subsidiary companies.

The appointment and replacement of the Company's directors is governed by its Articles of Association, the UK Corporate Governance 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, Section B2. The Articles of Association may only be amended by the Company's shareholders in general meeting.

Under article 143 of the Company's Articles of Association, the Company has qualifying third party indemnity provisions for the benefit of its directors which were in place throughout the year and which remain in force at the date of this report, in the form of directors and officers liability insurance.

The UK Corporate Governance Code recommends that all directors should be subject to re-appointment annually and therefore all of the directors, Mr R G Dench, Mr N S Terrington, Mr N Keen, Mr J A Heron, Mr R J Woodman, Mr E A Tilly, Mr A K Fletcher, Mr P J N Hartill and Ms F J Clutterbuck, have agreed to voluntarily retire from the Board at the end of the forthcoming Annual General Meeting, and, being eligible, will offer themselves for re election.

None of the 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 or she 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.

B4 Directors' report continued

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 38 to the accounts. The Company has one class of ordinary shares which carries no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. The rights and obligations attaching to ordinary shares are set out in the Articles of Association 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 15 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 £99,600,000 and to make market purchases of up to 29,900,000 £1 ordinary shares, granted at the Annual General Meeting on 7 February 2013. These authorities expire at the conclusion of the forthcoming Annual General Meeting on 6 February 2014.

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 2013 and 30 September 2012 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.

Dividends

The directors recommend a final dividend of 4.8p per share (2012: 4.5p per share) which, taken with the interim dividend of 2.4p per share (2012: 1.5p per share) paid on 26 July 2013, would give a total dividend for the year of 7.2p per share (2012: 6.0p per share).

Substantial shareholdings

As at 31 October 2013, 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
BlackRock	39,722,803	13.00%
M & G Investment Management	16,307,925	5.34%
Legal & General Investment Management	11,750,016	3.85%
Ignis Asset Management	10,717,836	3.51%
Standard Life Investments	9,971,442	3.26%
Henderson Global Investors	9,380,101	3.07%

Political expenditure

Company law requires the disclosure of political donations and political expenditure by any Group company. During the year ended 30 September 2013 no such payments were made (2012: £nil).

Auditors

The directors have taken all reasonable 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.

Annual General Meeting

The Annual General Meeting of the Company will take place on 6 February 2014 in London. A notice convening the Annual General Meeting is being circulated to shareholders with this Annual Report and Accounts.

Information presented in other sections

Certain information required to be included in a directors' report by Schedule 7 can be found in the other sections of the Annual Report, as described below. 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.

- Commentary on the likely future developments in the business of the Group is included in the Strategic report (Section A).
- A description of the Group's financial risk management objectives and policies, and its exposure to risks arising from its use of financial instruments are set out in note 6 to the accounts.
- Particulars of events occurring after the balance sheet date are described in notes 25 and 31 to the accounts, and discussed in the Strategic report (section A).
- Information concerning directors contractual arrangements and entitlements under share based remuneration arrangements is given in section B3, the Directors' remuneration report.
- Information concerning the employment of disabled persons and the involvement of employees in the business is given in section A5.1 – 'Employees'
- Disclosures concerning greenhouse gas emissions are given in Section A5.2 – 'Environmental policy'

Rule DTR7.2.1 of the Disclosure and Transparency Rules requires the Group's disclosures on Corporate governance to be included in the Directors' report. This information is presented in sections B2, B2.1 and B2.2 and the information in these sections is incorporated by reference into this Directors' report and is deemed to form part of this report.

Section B4 of this Annual Report, together with the other 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.

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

JOHN G GEMMELL

Company Secretary
26 November 2013

B5. Statement of directors' responsibilities in relation to financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. 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 2013, 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 Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

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

JOHN G GEMMELL

Company Secretary

26 November 2013

C. Independent auditor's report

c1. Independent auditor's report to the members of The Paragon Group of Companies PLC

Opinion on financial statements of The Paragon Group of Companies PLC

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 2013 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Movements in Equity and the related notes 1 to 59. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

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 by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

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

Going concern

As required by the Listing Rules we have reviewed the Directors' statement in section A4 that the Group is a going concern. We confirm that:

- we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern which we believe would need to be disclosed in accordance with IFRSs as adopted by the European Union; and
- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

- the assessment of the Group's calculation of provisions for impairment losses against loans and receivables is complex and requires management to make significant judgements regarding expectations of future cash flows arising from customers and the realisation of any security held;

- revenue recognition and specifically the application of the requirement in IAS 39 'Financial Instruments' ('IAS 39') to recognise income on loans using an effective interest rate method is a complex area, requiring management to make significant judgements relating to the expected life of each loan and the cash flows related thereto; and
- determining the key assumptions used to calculate the present value of the retirement benefit obligation requires significant management judgement in relation to inflation rates, discount rates and mortality rates.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We determined materiality for the Group to be £7.9 million, which is 7.5% of pre-tax profit and represents 0.9% of equity.

We agreed with the Audit and Compliance Committee that we would report to the Committee all audit differences in excess of £156,000, as well as differences below that threshold that in our view, warranted reporting on qualitative grounds. We also report to the Audit and Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit scope focused on the principal trading subsidiaries within the Group's two reportable segments and account for 100% of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work on the principal trading subsidiaries comprised statutory audits which were executed at levels of materiality applicable to each individual entity which were much lower than group materiality.

The way in which we scoped our response to the risks identified above was as follows:

- we challenged the appropriateness of management's key assumptions used in the impairment calculations for loans and receivables, including specifically the estimation of future cash flows, the valuation of the underlying security, and the identification of impaired accounts. This involved benchmarking the assumptions against external economic and industry data and analysis of the Group's historic experience. Sensitivity analysis was also performed in relation to the key assumptions in order to assess the potential for management bias;
- we challenged management's assumptions used in the recognition of revenue using the effective interest rate method, including the impact of early redemptions, and assessed whether the revenue recognition policies adopted were in compliance with IFRS. This involved benchmarking the assumptions using external economic data and industry reports and the Group's historic experience. Sensitivity analysis was also performed in relation to the key assumptions in order to assess the potential for management bias;
- we evaluated the appropriateness of the principal actuarial assumptions used in the calculation of the retirement benefit obligation, as set out in note 50 using market data from our in-house actuarial specialists detailing the range of assumptions used as at 30 September 2013. We also performed sensitivity analysis over the key assumptions in order to assess the potential for management bias.

The Audit and Compliance Committee's consideration of these risks is set out in section B2.1.

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 Strategic report and 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

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns. Under the Listing Rules we are required to review certain elements of the Directors' remuneration report. We have nothing to report arising from these matters or our review.

Corporate governance statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit and Compliance Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, in section B5, 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 and express an opinion on 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 Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 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 auditor's 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.

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PETER BIRCH (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Birmingham, United Kingdom

26 November 2013

D. The accounts

D1.1	Consolidated income statement	81
D1.2	Consolidated statement of comprehensive income	81
D1.3	Consolidated balance sheet	82
D1.4	Company balance sheet	83
D1.5	Consolidated cash flow statement	84
D1.6	Company cash flow statement	84
D1.7	Statement of movements in equity	85
D2	Notes to the accounts	86

D1.1 Consolidated income statement

For the year ended 30 September 2013

	Note	2013 £m	2012 £m
Interest receivable	9	272.6	293.8
Interest payable and similar charges	10	(111.3)	(136.0)
Net interest income		161.3	157.8
Other operating income	11	16.6	12.4
Total operating income		177.9	170.2
Operating expenses	12	(58.6)	(51.9)
Provisions for losses	17	(15.2)	(24.1)
Operating profit before fair value items		104.1	94.2
Fair value net gains	18	1.3	1.3
Operating profit being profit on ordinary activities before taxation		105.4	95.5
Tax charge on profit on ordinary activities	19	(20.2)	(23.3)
Profit on ordinary activities after taxation for the financial year		85.2	72.2
	Note	2013	2012
Earnings per share			
- basic	21	28.4p	24.2p
- diluted	21	27.5p	23.5p

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

D1.2 Consolidated statement of comprehensive income

For the year ended 30 September 2013

	Note	2013 £m	2012 £m
Profit for the year		85.2	72.2
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Actuarial (loss) on pension scheme	50	(2.8)	(0.5)
Tax thereon	22	0.1	(0.2)
		(2.7)	(0.7)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedge gains / (losses) taken to equity	42	1.2	(1.5)
Tax thereon	22	(0.2)	0.4
		1.0	(1.1)
Other comprehensive income for the year net of tax		(1.7)	(1.8)
Total comprehensive income for the year		83.5	70.4

D1.3 Consolidated balance sheet

30 September 2013

	Note	2013 £m	2012 £m	2011 £m
Assets employed				
Non-current assets				
Intangible assets	23	8.5	9.1	9.3
Property, plant and equipment	25	9.6	10.7	11.4
Financial assets	28	9,715.3	9,505.2	9,891.2
		9,733.4	9,525.0	9,911.9
Current assets				
Other receivables	36	7.6	7.3	4.7
Cash and cash equivalents	37	587.3	504.8	571.6
		594.9	512.1	576.3
Total assets		10,328.3	10,037.1	10,488.2
Financed by				
Equity shareholders' funds				
Called-up share capital	38	306.2	301.8	299.7
Reserves	39	614.7	550.2	490.7
Share capital and reserves		920.9	852.0	790.4
Own shares	46	(47.6)	(48.5)	(48.4)
Total equity		873.3	803.5	742.0
Current liabilities				
Financial liabilities	47	3.0	2.0	1.8
Current tax liabilities	52	5.9	13.3	10.7
Other liabilities	53	36.2	36.7	38.3
		45.1	52.0	50.8
Non-current liabilities				
Financial liabilities	47	9,383.4	9,159.0	9,674.5
Retirement benefit obligations	50	15.7	13.9	14.4
Deferred tax	51	9.9	7.6	5.0
Other liabilities	53	0.9	1.1	1.5
		9,409.9	9,181.6	9,695.4
Total liabilities		9,455.0	9,233.6	9,746.2
		10,328.3	10,037.1	10,488.2

Approved by the Board of Directors on 26 November 2013.

Signed on behalf of the Board of Directors.

N S Terrington
Chief Executive

N Keen
Finance Director

D1.4 Company balance sheet

30 September 2013

	Note	2013 £m	2012 £m	2011 £m
Assets employed				
Non-current assets				
Property, plant and equipment	25	5.6	6.7	7.7
Investment in subsidiary undertakings	26	678.2	622.6	746.9
Financial assets	28	-	-	4.0
		683.8	629.3	758.6
Current assets				
Other receivables	36	115.0	80.1	80.0
Cash and cash equivalents	37	153.9	124.5	189.2
		268.9	204.6	269.2
Total assets		952.7	833.9	1,027.8
Financed by				
Equity shareholders' funds				
Called-up share capital	38	306.2	301.8	299.7
Reserves	39	423.1	373.8	322.2
Share capital and reserves		729.3	675.6	621.9
Own shares	46	(39.5)	(39.5)	(39.5)
Total equity		689.8	636.1	582.4
Current liabilities				
Financial liabilities	47	1.6	1.4	1.2
Current tax liabilities	52	4.8	4.4	3.3
Other liabilities	53	76.4	71.1	316.5
		82.8	76.9	321.0
Non-current liabilities				
Financial liabilities	47	177.7	120.2	123.6
Deferred tax	51	1.8	-	-
Other liabilities	53	0.6	0.7	0.8
		180.1	120.9	124.4
Total liabilities		262.9	197.8	445.4
		952.7	833.9	1,027.8

Approved by the Board of Directors on 26 November 2013.

Signed on behalf of the Board of Directors.

N S Terrington
Chief Executive

N Keen
Finance Director

D1.5 Consolidated cash flow statement

For the year ended 30 September 2013

	Note	2013 £m	2012 £m
Net cash (utilised) / generated by operating activities	54	(31.9)	117.3
Net cash (utilised) by investing activities	55	(1.6)	(2.2)
Net cash generated / (utilised) by financing activities	56	115.2	(181.9)
Net increase / (decrease) in cash and cash equivalents		81.7	(66.8)
Opening cash and cash equivalents		504.2	571.0
Closing cash and cash equivalents		585.9	504.2
Represented by balances within:			
Cash and cash equivalents		587.3	504.8
Financial liabilities		(1.4)	(0.6)
		585.9	504.2

D1.6 Company cash flow statement

For the year ended 30 September 2013

	Note	2013 £m	2012 £m
Net cash generated / (utilised) by operating activities	54	49.8	(60.9)
Net cash (utilised) / generated by investing activities	55	(61.7)	7.6
Net cash generated / (utilised) by financing activities	56	41.3	(11.4)
Net increase / (decrease) in cash and cash equivalents		29.4	(64.7)
Opening cash and cash equivalents		124.5	189.2
Closing cash and cash equivalents		153.9	124.5
Represented by balances within:			
Cash and cash equivalents		153.9	124.5
Financial liabilities		-	-
		153.9	124.5

D1.7 Statement of movements in equity

For the year ended 30 September 2013

	Note	The Group		The Company	
		2013 £m	2012 £m	2013 £m	2012 £m
Total comprehensive income for the year		83.5	70.4	66.9	61.1
Dividends paid	44	(20.7)	(12.3)	(20.7)	(12.3)
Net movement in own shares		0.9	(0.1)	-	-
(Deficit) / surplus on transactions in own shares	45	(0.4)	(0.2)	4.4	2.1
Charge for share based remuneration	13	3.1	2.8	3.1	2.8
Tax on share based remuneration	22	3.4	0.9	-	-
Net movement in equity in the year		69.8	61.5	53.7	53.7
Equity at 30 September 2012		803.5	742.0	636.1	582.4
Equity at 30 September 2013		873.3	803.5	689.8	636.1

D2. Notes to the accounts

For the year ended 30 September 2013

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 51 Homer Road, Solihull, West Midlands, B91 3QJ. The nature of the Group's operations and its principal activities are set out in the Strategic Report in section A2.

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

In the preparation of these financial statements no new reporting standards are being applied for the first time.

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 9 – 'Financial Instruments';
- IFRS 10 – 'Consolidated Financial Statements';
- IFRS 11 – 'Joint Arrangements';
- IFRS 12 – 'Disclosure of Interests in Other Entities';
- IFRS 13 – 'Fair Value Measurement';
- IAS 27 (Revised) – 'Separate Financial Statements';
- IAS 28 (Revised) – 'Investments in Associates and Joint Ventures'; and
- Amendment to IAS 19 – 'Employee benefits'.

The adoption of IFRS 9, as currently in issue, would not be anticipated to have a material impact on the accounting of the Group although the International Accounting Standards Board ('IASB') has announced its intention to expand this Standard in such a way that would require changes to the valuation and income recognition methods relating to the Group's Loans to Customers, Borrowings and derivative assets and liabilities. In November 2013 the IASB announced that the implementation date was being removed from this Standard and that a new date would be announced when the whole project was closer to completion. The European Union has declined to consider the endorsement of IFRS 9 until a complete version is issued by the IASB. The Group has yet to conduct a full assessment of its potential impact, pending further information on the implementation date from the IASB and on endorsement from the European Union.

IFRS 10, 11 and 12 and the revised IAS 27 and 28 form the new IFRS regime for consolidation. The directors do not expect that the entities included within the consolidated accounts will differ under the new standards from those presently consolidated, nor that the consolidated results will be changed, although the disclosures provided under the new standards may differ. These standards are expected to be applied for the first time in the Group's accounts for the year ending 30 September 2014.

IFRS 13, which is expected to apply to the Group's accounts from the year ending 30 September 2014 sets out new guidance on the establishment of fair value for accounting purposes and enhanced disclosures. It will apply to all amounts in the Group's financial statements presented at fair value, but is unlikely, in the view of the directors, to have a material impact on the Group's results or financial position.

The revision to IAS 19, which is expected to apply to the Group's accounts for the year ending 30 September 2014, will change the amounts presented in the income statement in respect of the Group's pension plan, without affecting the surplus or deficit shown in the balance sheet. If that Standard had been in force for the financial year ended 30 September 2013 it is estimated that the effect would be to reduce profit before tax by £0.8m (2012: £0.4m).

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

3. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In the financial years reported upon this means that the financial statements accord also with International Financial Reporting Standards as approved by the International Accounting Standards Board.

The particular policies applied are described below.

(a) Accounting convention

The financial statements have been 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 2013. 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 group companies were sold as part of its warehouse and securitisation funding arrangements, 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) Going concern

The consolidated financial statements have been prepared on the going concern basis. The directors’ reasons for the adoption of this basis are given in the Strategic Report in section A4.

(d) 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.

(e) 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.

(f) Leases

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

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

(g) 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. Land is not depreciated. The rates of depreciation are as follows:

Freehold premises	2% per annum
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

(h) Investments in subsidiaries

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

(i) 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 procurement 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.

(j) 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 impairment.

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

(k) 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.

(l) Investments in structured entities

Investments in structured entities are intended to be held to maturity and are therefore accounted for on the amortised cost basis. The return from such investments is calculated on the EIR basis.

(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.

(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 Comprehensive Income.

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) 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.

(x) 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.

(y) Share based payments

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

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

Where the allowable cost of share based awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to reserves.

(z) Dividends

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

(aa) Foreign currency

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

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

(bb) Segmental reporting

The accounting policies of the operating segments are the same as those described above for the Group as a whole. 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 customers’ 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. For purchased accounts this will involve estimating the likely future performance of the accounts at the time of acquisition. These estimates are based on historical data and reviewed regularly. For purchased accounts historical data obtained from the vendor will be examined. 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 50. 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 was 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 24.

5. CAPITAL MANAGEMENT

The Group's objectives in managing capital are:

- To ensure that the Group has sufficient capital to meet its operational requirements and strategic objectives;
- 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 retail or corporate bonds, or sell assets to reduce debt. The Group is not subject to any externally imposed capital requirements.

Following its rights issue in 2008 the Group pursued a progressive dividend policy with the dividend being increased from 3.0p in respect of that year to 4.0p in respect of the year ended 30 September 2011. In 2012 as a result of the progress of the business, the directors adopted a new policy under which the dividends will increase so that, by the year ending 30 September 2016, the level of dividend cover will be maintained in the range 3.0 to 3.5 times.

The expected level of dividend cover in respect of the year, subject to the approval of the final dividend at the Annual General Meeting, is shown below.

	Note	2013	2012
Profit after tax for the year (£m)		85.2	72.2
Proposed dividend in respect of the year (£m)	44	21.8	17.9
Dividend cover (times)		3.9	4.0

The figure stated for the year ended 30 September 2012 has been adjusted to reflect the actual dividend paid.

Return on equity is defined by the Group by comparing the profit after tax for the year to the average of the opening and closing equity positions and is derived as follows:

	2013 £m	2012 £m
Profit for the year	85.2	72.2
Divided by		
Opening equity	803.5	742.0
Closing equity	873.3	803.5
Average equity	838.4	772.7
Return on Equity	10.2%	9.3%

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 up to a maximum of the total debt. 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 2013 and at 30 September 2012 were as follows:

	Note	2013 £m	2012 £m
Debt			
Corporate bond	48	110.0	110.0
Retail bonds	48	60.0	-
Bank overdraft	47	1.4	0.6
Less: Applicable free cash	37	(170.8)	(110.6)
Net debt		0.6	-
Equity			
Total equity		873.3	803.5
Less: cash flow hedging reserve	42	(1.7)	(0.7)
Adjusted equity		871.6	802.8
Total working capital		872.2	802.8
Debt		0.1%	-
Equity		99.9%	100.0%
Total working capital		100.0%	100.0%

In addition at 30 September 2012 the Group held £17.1m of free cash in excess of that shown above.

The stable proportion of working capital represented by equity during 2013 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 in Section B2, 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.

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:

- 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.
- 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 at 30 September 2011 was the swap related to the fixed rate corporate bond borrowing described above. This reached its term in the year ended 30 September 2012 and the Company now has no derivative assets or liabilities.

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:

	Note	The Group		The Company	
		2013 £m	2012 £m	2013 £m	2012 £m
Loans to customers	31	8,801.5	8,694.6	-	-
Investments in structured entities	34	23.8	9.1	-	-
Derivative financial assets	35	890.0	800.4	-	-
Amounts owed by Group companies	36	-	-	115.0	80.1
Accrued interest	36	0.2	0.2	-	-
Cash	37	587.3	504.8	153.9	124.5
Maximum exposure to credit risk		10,302.8	10,009.1	268.9	204.6

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

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 2013 are analysed as follows:

	2013 £m	2013 %	2012 £m	2012 %
Buy-to-let mortgages	8,324.4	94.6%	8,196.4	94.3%
Owner occupied mortgages	77.4	0.9%	99.2	1.1%
Total first mortgages	8,401.8	95.5%	8,295.6	95.4%
Secured loans	248.4	2.8%	279.9	3.2%
Loans secured on property	8,650.2	98.3%	8,575.5	98.6%
Car loans	1.3	-	2.5	0.1%
Retail finance loans	1.5	-	2.0	-
Other loans	148.5	1.7%	114.6	1.3%
Total loans to customers	8,801.5	100.0%	8,694.6	100.0%

Other loans include unsecured loans either advanced by Group companies or acquired from their originators at a discount.

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 pools of loan assets or invest in loan portfolios, the Group will undertake a due diligence exercise on the underlying loan accounts. Such assets are generally not fully performing and are offered at a discount to their current balance. The Group's procedures may include inspection of original loan documents, verification of security and the examination of the credit status of borrowers. Current and historic cash flow data will also be examined. The objective of the exercise is to establish, to a level of confidence similar to that provided by the underwriting process, that the assets will generate sufficient cash flows to recover the Group's investment and generate an appropriate return.

Investments in structured entities represent the Group's contribution made to special purpose vehicle ('SPV') companies established and controlled by third parties to purchase pools of loan assets. All such investments are denominated in sterling and the underlying loans are made to United Kingdom borrowers. Cash generated by the assets is distributed to investors in accordance with a specified priority of payments. The Group has no obligation to make further contributions to the SPV companies concerned.

The management has considered the position of the underlying assets and concluded that they will generate sufficient cash flows to repay the amount of the investment.

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 35.

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.

An analysis of the indexed loan to value ratio ('LTV') for those loan accounts secured on property by value at 30 September 2013 is set out below. For acquired accounts the effect of any discount on purchase is allowed for.

	2013 First Mortgages %	2013 Secured Loans %	2012 First Mortgages %	2012 Secured Loans %
Loan to value ratio				
Less than 70%	30.3	29.5	23.7	26.2
70% to 80%	25.6	14.3	22.1	14.4
80% to 90%	25.4	14.1	26.4	14.0
90% to 100%	14.6	14.3	21.7	14.2
Over 100%	4.1	27.8	6.1	31.2
	100.0	100.0	100.0	100.0
Average loan to value ratio	77.9	89.0	81.1	90.9

The regionally indexed LTVs shown above are affected by changes in house prices, with the Nationwide house price index, for the UK as a whole, registering an annual increase of 5.0% in the year ended 30 September 2013 (2012: decrease of 1.6%).

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 2013 and 30 September 2012, compared to the industry averages at those dates published by the Council of Mortgage Lenders ('CML') and the Finance and Leasing Association ('FLA'), was:

	2013 %	2012 %
First mortgages		
Accounts more than three months in arrears		
Buy-to-Let accounts including receiver of rent cases	0.35	0.48
Buy-to-Let accounts excluding receiver of rent cases	0.07	0.06
Owner Occupied accounts	4.24	4.38
CML data for mortgage accounts more than three months in arrears		
Buy-to-Let accounts including receiver of rent cases	1.16	1.51
Buy-to-Let accounts excluding receiver of rent cases	0.99	1.22
Owner Occupied accounts	1.86	2.03
All mortgages	1.75	1.93
Secured loans		
Accounts more than 2 months in arrears	21.46	19.42
FLA data for secured loans	17.50	18.00
Car loans		
Accounts more than 2 months in arrears	25.52	18.45
FLA data for all personal loans	5.80	7.20
Other loan		
Accounts more than 2 months in arrears	81.98	62.92

No published industry data for asset classes comparable to the Group's other books has been identified. Where revised data at 30 September 2012 has been published by the FLA or CML, the comparative industry figures above have been amended.

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, leaving arrears accounts representing a greater proportion of the total.

The figures shown above for secured loans and other loans include purchased portfolios which generally include a high proportion of cases in arrears at the time of purchase and where this level of performance is allowed for in the discount to current balance represented by the purchase price.

The payment status of the carrying balances of the Group's loan assets, before provision for impairment, at 30 September 2013 and at 30 September 2012 split between those accounts considered as performing and those included in the population for impairment testing, is shown below.

First Mortgages

	2013 £m	2012 £m
Not past due	8,173.6	7,949.4
Arrears less than 3 months	172.6	270.3
Performing accounts	8,346.2	8,219.7
Arrears 3 to 6 months	5.4	6.5
Arrears 6 to 12 months	6.4	9.2
Arrears over 12 months	26.9	36.0
Possessions and similar cases	38.2	49.8
Impairment population	76.9	101.5
	8,423.1	8,321.2

Consumer Finance

	Secured loans	Car loans	Retail finance loans	Total
	£m	£m	£m	£m
30 September 2013				
Not past due	175.6	0.8	0.2	176.6
Arrears less than 2 months	22.8	0.2	-	23.0
Performing accounts	198.4	1.0	0.2	199.6
Arrears 2 to 6 months	16.7	0.1	-	16.8
Arrears 6 to 9 months	7.9	-	-	7.9
Arrears 9 to 12 months	6.6	-	0.1	6.7
Arrears over 12 months	25.1	0.7	2.1	27.9
Impairment population	56.3	0.8	2.2	59.3
	254.7	1.8	2.4	258.9
30 September 2012				
Not past due	208.4	1.5	0.3	210.2
Arrears less than 2 months	30.2	0.4	-	30.6
Performing accounts	238.6	1.9	0.3	240.8
Arrears 2 to 6 months	19.5	0.1	-	19.6
Arrears 6 to 9 months	8.2	0.1	0.1	8.4
Arrears 9 to 12 months	5.9	-	0.1	6.0
Arrears over 12 months	23.7	0.6	2.2	26.5
Impairment population	57.3	0.8	2.4	60.5
	295.9	2.7	2.7	301.3

Other loans

	2013 £m	2012 £m
Not past due	18.6	32.1
Arrears less than 1 month	1.7	1.8
Performing accounts	20.3	33.9
Arrears 1 to 3 months	1.5	1.4
Arrears 3 to 6 months	1.8	1.6
Arrears 6 to 12 months	3.8	2.1
Arrears over 12 months	140.2	87.5
Impairment population	147.3	92.6
	167.6	126.5

In the debt purchase industry, Estimated Remaining Collections ('ERC') is commonly used as a measure of the value of a portfolio. This is defined as the sum of the undiscounted cash flows expected to be received over a specified future period. In the Group's view, this measure may be suitable for heavily discounted, unsecured, distressed portfolios, but is less applicable for the types of portfolio in which the Group has invested, where cash flows are higher on acquisition, loans may be secured on property and customers may not be in default. In such cases, the IAS 39 amortised cost balance, at which these assets are carried in the Group balance sheet, provides a better indication of value.

However, to aid comparability the 84 and 120 month ERC values for the Group's purchased assets are set out below, analysed by the balance sheet line on which they appear. These are derived using the same models and assumptions used in the EIR calculations, but the differing bases of calculation lead to different outcomes.

	2013 Carrying value £m	2013 84 month ERC £m	2013 120 month ERC £m	2012 Carrying value £m	2012 84 month ERC £m	2012 120 month ERC £m
Loans to customers	169.9	272.6	313.3	126.3	219.5	250.7
Investments in structured entities	23.8	31.7	40.6	9.1	13.4	13.4
	193.7	304.3	353.9	135.4	232.9	264.1

Amounts shown as loan to customers above include loans disclosed as first mortgages and other loans (note 28).

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 originated loan assets are principally financed by asset backed loan notes ('Notes') issued through the securitisation process. In a securitisation deal an SPV company within the Group 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. Similarly, payment of accrued interest to the noteholders is limited to cash generated within the SPV. There is no requirement for any Group company other than the issuing SPV to make principal or interest payments in respect of the Notes. This matching of the maturities of the assets and the related funding substantially reduces the Group's exposure to liquidity risk. Details of Notes in issue are given in note 48 and the assets backing the Notes are shown in notes 29 and 30.

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 also provides funding to the SPV at inception, subordinated to the Notes, which means that credit risk on the pool assets is retained within the Group. The Group 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 interest and principal payments to be made even if loans default. In order to provide further credit enhancement in certain of the SPVs there exist specific economic trigger events which cause additional cash to be retained in the SPV, rather than being transferred to the Group. While the Group can, if it chooses, contribute additional cash to cover these requirements, it is under no obligation to do so. During the year one such trigger event occurred in Paragon Secured Finance (No. 1) plc, one of the Group's consumer finance securitisations, and £2.4m of additional cash was retained in that company (2012: £nil). Whether any such events in any of the Group's other SPVs arise in the future will depend on the performance of the general economy and its impact on mortgage and loan arrears in each SPV. However if all of the remaining trigger events occurred, a total of £70.5m of additional cash would be retained in the SPV companies (2012: £67.9m). The cash balances of the SPV companies are included within the restricted cash balances disclosed in note 37.

Newly originated mortgage loans are initially funded by a revolving loan facility or 'warehouse' from the point of their origination until their inclusion in a securitisation deal. A warehouse functions in a similar way to an SPV, except that funds are drawn down as advances are made and repaid when loans are securitised.

On 29 February 2008 the warehouse facility provided to Paragon Second Funding Limited 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.

On 27 September 2010 Macquarie Bank and Paragon Fourth Funding Limited signed a new warehouse facility agreement, which was renewed on substantially the same terms during the current financial year. This warehouse is available for drawing and redrawing until 13 December 2014 and is used to fund new first charge mortgage loans. After that date the loan has a further two year period for the assets funded to be sold or refinanced. Repayment of the principal drawn in respect of assets is not required unless amounts are realised from them either through repayment, securitisation or asset sales, even after the two year period. There is no further recourse to other assets of the Group in respect of either interest or principal on the borrowing.

On 26 September 2012 the wholesale division of Lloyds Bank and Paragon Fifth Funding Limited signed an additional warehouse facility agreement, which was drawn on for the first time during the year and operates in parallel with the Paragon Fourth Funding facility. The term of the facility is three years and is available to fund new loans in its first twenty four months. As with the Paragon Fourth Funding facility repayment of the principal drawn in respect of assets is not required unless amounts are realised from them either through repayment, securitisation or asset sales, even after the initial period. There is no further recourse to other assets of the Group in respect of either interest or principal on the borrowing.

As with the SPVs, the Group provides subordinated funding to the warehouse companies and restricted cash balances are held within them. Further details of the warehouse facilities are given in note 48 and details of the loan assets within the warehouses are given in note 29.

Between 29 February 2008 and 4 October 2010 the only advances made by the Group were consumer loans and further advances on existing mortgage accounts, which were funded from existing drawings in the SPV companies. The provision of new consumer loans ceased on 9 April 2009, when the period over which new loans could be sold to the consumer finance SPVs ended. New first mortgage lending commenced on 5 October 2010.

The securitisation process and the terms of the warehouse facilities 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 borrowings and the old warehouse borrowing 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 2013 under the SPV and warehouse 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 £8,324.0m (2012: £8,240.6m). The total sterling amount payable under these arrangements, were these principal amounts to remain outstanding until the final repayment date would be £17,363.4m (2012: £16,429.1m). 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.

In February 2013, the Group initiated a Euro Medium Term Note issuance programme, with a maximum issuance of £1,000.0m, and in March made an issue under it of £60.0m fixed term retail bonds falling due for payment in December 2020. The Group has the ability to issue further notes under the programme within twelve months of its inauguration and it may subsequently be renewed.

The Group's investments in purchased loan portfolios and structured entities are funded from its free cash balances and these investments carry no obligation to make further payments. They therefore pose no liquidity risk to the Group.

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 53 are shown below.

	Corporate bond £m	Retail bonds £m	Other accruals £m	Total £m
30 September 2013				
Payable in less than one year	4.1	3.6	13.2	20.9
Payable in one to two years	4.1	3.6	-	7.7
Payable in two to five years	118.2	10.8	-	129.0
Payable in over five years	-	68.1	-	68.1
	126.4	86.1	13.2	225.7
30 September 2012				
Payable in less than one year	4.1	-	11.8	15.9
Payable in one to two years	4.1	-	-	4.1
Payable in two to five years	122.3	-	-	122.3
Payable in over five years	-	-	-	-
	130.5	-	11.8	142.3

The cash flows described above will include those for interest on borrowings accrued at 30 September 2013 disclosed in note 53.

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:

	2013 Total cash outflow / (inflow) £m	2012 Total cash outflow / (inflow) £m
On derivative liabilities		
Payable in less than one year	0.3	1.6
Payable in one to two years	0.2	0.4
Payable in two to five years	0.4	0.8
Payable in over five years	1.0	2.8
	1.9	5.6
On derivative assets		
Payable in less than one year	(0.3)	(0.4)
Payable in one to two years	(0.2)	(0.3)
Payable in two to five years	(0.4)	(0.8)
Payable in over five years	(1.0)	(2.7)
	(1.9)	(4.2)
	-	1.4

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 either quarterly or monthly 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 loan 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 return to the Group from its investments in structured entities is primarily attributable to the cash generation of the underlying portfolio. There is no direct exposure to market interest rate risk.

Until the optional repayment date on 20 April 2012, the fixed rate corporate bond was hedged by use of a long-term interest rate swap agreement, of notional principal equal to the principal amount of the bond, which converted the interest payable to a LIBOR-linked floating rate basis. Since that date interest has been payable on the Bond at a fixed rate of 3.729%.

During the year retail bonds were issued under a Euro Medium Term Note Programme. All bonds issued to date bear interest at fixed rates only, although the programme includes the facility to issue floating rate instruments in the future.

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 and the terms of other borrowings.

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 2013, 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 2013 by £4.0m (2012: £4.0m) and increase profit before tax by £8.2m (2012: £8.4m).

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 affect 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 £1.2m (2012: £1.2m) and £2.1m (2012: £2.0m) respectively.

The only interest rate risk in the Company arose from the corporate bond described above, until it became a fixed rate instrument in April 2012. The Company has also issued retail bonds bearing fixed rates of interest. Assets and liabilities with other group companies 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 48. Although IAS 39 requires that they be accounted for as currency liabilities and valued at their spot rates, a condition of the issue of these notes was 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 2013 and 30 September 2012 are:

	2013 Equivalent sterling principal £m	2013 Carrying value £m	2012 Equivalent sterling principal £m	2012 Carrying value £m
US dollar notes	2,775.6	3,232.0	2,867.5	3,342.7
Euro notes	1,936.7	2,373.1	1,983.0	2,313.3
	<u>4,712.3</u>	<u>5,605.1</u>	<u>4,850.5</u>	<u>5,656.0</u>

None of the assets or liabilities of the Company are denominated in foreign currencies.

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.

Derivative financial instruments are stated at their fair values in the accounts. The Group uses a number of techniques to determine the fair values of its derivative assets and liabilities, for which observable prices in active markets are not available. These are principally present value calculations based on estimated future cash flows arising from the instruments, discounted using a risk adjusted interest rate. The principal inputs to these valuation models are LIBOR benchmark interest rates for the currencies in which the instruments are denominated, sterling, euros and dollars. The cross currency basis swaps have a notional principal related to the outstanding currency borrowings and therefore the estimated rate of repayment of these notes also affects the valuation of the swaps. In order to determine the fair values the management applies valuation adjustments to observed data where that data would not fully reflect the attributes of the instrument being valued. The management reviews the models used on an ongoing basis to ensure that the valuations produced are reasonable and reflect all relevant factors.

For assets and liabilities carried at fair value, IFRS 7 requires that the measurements should be classified using a fair value hierarchy reflecting the inputs used, and defines three levels. Level 1 measurements are unadjusted market prices, level 2 measurements are derived from observable data, such as market prices or rates, while level 3 measurements rely on significant inputs which are not derived from observable data. As described above the valuations of the Group's derivatives are based on market information and they are therefore classified as level 2 measurements. Details of these assets are given in note 35. The Group had no financial assets or liabilities in the year ended 30 September 2013 or the year ended 30 September 2012 valued using level 1 or level 3 measurements.

The fair values of cash and cash equivalents, bank loans and overdrafts and asset backed loan notes, which are carried at amortised cost, 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. While the Group's asset backed loan notes are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it.

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. SEGMENTAL INFORMATION

For internal reporting purposes the Group is organised into two major operating divisions, First Mortgages and Consumer Finance. These divisions are the basis on which the Group reports segmental information.

The revenue generated by the First Mortgages segment includes interest and fees generated by the buy-to-let and owner-occupied mortgage assets and other income derived from first charge mortgages. Consumer Finance revenue includes interest and fees generated by second charge loans, the residual car, retail finance and unsecured loan assets, and other sources of income derived from consumer loans. Both of these divisions include assets originated internally and assets acquired from third parties.

All of the Group's operations are conducted in the United Kingdom, all revenues arise from external customers and there are no inter-segment revenues. No customer contributes more than 10% of the revenue of the Group.

Financial information about these business segments is shown below.

Year ended 30 September 2013

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	209.4	63.2	272.6
Interest payable	(103.9)	(7.4)	(111.3)
Net interest income	105.5	55.8	161.3
Other operating income	5.4	11.2	16.6
Total operating income	110.9	67.0	177.9
Operating expenses	(39.7)	(18.9)	(58.6)
Provisions for losses	(6.8)	(8.4)	(15.2)
	64.4	39.7	104.1
Fair value net gains / (losses)	1.3	-	1.3
Operating profit	65.7	39.7	105.4
Tax charge			(20.2)
Profit after tax			85.2

Year ended 30 September 2012

	First Mortgages £m	Consumer Finance £m	Total £m
Interest receivable	231.1	62.7	293.8
Interest payable	(128.1)	(7.9)	(136.0)
Net interest income	103.0	54.8	157.8
Other operating income	6.2	6.2	12.4
Total operating income	109.2	61.0	170.2
Operating expenses	(35.2)	(16.7)	(51.9)
Provisions for losses	(12.4)	(11.7)	(24.1)
	61.6	32.6	94.2
Fair value net gains / (losses)	1.6	(0.3)	1.3
Operating profit	63.2	32.3	95.5
Tax charge			(23.3)
Profit after tax			72.2

The assets and liabilities attributable to each of the segments at 30 September 2013, 30 September 2012 and 30 September 2011 were:

	First Mortgages £m	Consumer Finance £m	Total £m
30 September 2013			
Segment assets	9,813.7	514.6	10,328.3
Segment liabilities	(9,093.6)	(361.4)	(9,455.0)
	720.1	153.2	873.3
30 September 2012			
Segment assets	9,541.3	495.8	10,037.1
Segment liabilities	(8,862.4)	(371.2)	(9,233.6)
	678.9	124.6	803.5
30 September 2011			
Segment assets	10,009.3	478.9	10,488.2
Segment liabilities	(9,400.2)	(346.0)	(9,746.2)
	609.1	132.9	742.0

All of the assets shown above were located in the United Kingdom.

The total additions to non-current assets, excluding financial instruments and deferred tax assets, attributable to each segment during the years ended 30 September 2013 and 30 September 2012 was:

	First Mortgages £m	Consumer Finance £m	Total £m
2013	1.5	0.1	1.6
2012	2.3	0.1	2.4
Being:			
	Intangible Assets (Note 23) £m	Property, Plant and Equipment (Note 25) £m	Total £m
2013	0.6	1.0	1.6
2012	0.8	1.6	2.4

8. REVENUE

	2013 £m	2012 £m
Interest receivable	272.6	293.8
Other income	16.6	12.4
Total revenue	289.2	306.2
Arising from:		
First Mortgages	214.8	237.3
Consumer Finance	74.4	68.9
Total revenue	289.2	306.2

9. INTEREST RECEIVABLE

	2013 £m	2012 £m
Interest on loans to customers	262.8	282.0
Other interest receivable	2.1	2.8
Income from structured entities	4.1	5.5
Total interest on financial assets	269.0	290.3
Return on pension scheme assets	3.6	3.5
	272.6	293.8

Interest on loans to customers includes £8.5m (2012: £9.8m) charged on accounts where an impairment provision has been made.

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £m	2012 £m
On asset backed loan notes	74.3	101.5
On corporate bond	4.1	3.9
On retail bonds	2.1	-
On bank loans and overdrafts	24.9	24.8
Total interest on financial liabilities	105.4	130.2
On pension scheme liability	3.8	3.9
On finance leases	0.9	1.0
Other finance costs	1.2	0.9
	111.3	136.0

11. OTHER OPERATING INCOME

	2013 £m	2012 £m
Loan account fee income	4.4	5.0
Insurance income	2.0	2.5
Third party servicing	9.5	3.9
Other income	0.7	1.0
	<u>16.6</u>	<u>12.4</u>

12. OPERATING EXPENSES

	Note	2013 £m	2012 £m
Employment costs	13	37.5	33.1
Auditor remuneration	16	1.9	1.2
Amortisation of intangible assets	23	1.2	1.0
Depreciation	25	2.1	2.1
Operating lease rentals	58	2.0	2.6
Other administrative costs		13.9	11.9
		<u>58.6</u>	<u>51.9</u>

13. EMPLOYEES

The average number of persons (including directors) employed by the Group during the year was 814 (2012: 722). The number of employees at the end of the year was 874 (2012: 754).

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

	2013 £m	2013 £m	2012 £m	2012 £m
Share based remuneration	3.1		2.8	
Other wages and salaries	<u>28.1</u>		<u>25.3</u>	
Total wages and salaries		31.2		28.1
National Insurance on share based remuneration	1.9		1.0	
Other social security costs	<u>2.4</u>		<u>2.3</u>	
Total social security costs		4.3		3.3
Defined benefit pension cost	1.7		1.5	
Other pension costs	<u>0.3</u>		<u>0.2</u>	
Total pension costs		<u>2.0</u>		<u>1.7</u>
Total staff costs		<u>37.5</u>		<u>33.1</u>

Details of the pension schemes operated by the Group are given in note 50.

The Company has no employees. Details of the directors' remuneration are given in note 14.

14. 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 in section B3.3.2.

	2013 £m	2013 £m	2012 £m	2012 £m
Salaries and fees	1.7		1.5	
Cash amount of bonus	1.6		1.5	
Social security costs	<u>0.6</u>		<u>0.4</u>	
Short-term employee benefits		3.9		3.4
Post-employment benefits		0.5		0.5
IFRS 2 cost in respect of directors	1.9		0.4	
National Insurance thereon	<u>1.8</u>		<u>1.0</u>	
Share based payment		<u>3.7</u>		<u>1.4</u>
		<u>8.1</u>		<u>5.3</u>

Post-employment benefits shown above are shown as 'Pension allowance' in section B3.3.2. Costs in respect of share awards shown in the Annual Report on Remuneration are determined on a different basis to the IFRS 2 charge shown above.

Social security costs paid in respect of directors are required to be included in this note by IAS 24, but do not fall within the scope of the disclosures in the Directors' Remuneration Report.

15. 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 13.

Further details of share based payment arrangements are given in the Report of the Board to the Shareholders on Directors' Remuneration in section B3.3.2.

(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. The Executive schemes are no longer available for the grant of further awards.

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 of options over £1 ordinary shares during the year ended 30 September 2013 and the year ended 30 September 2012 is shown below.

	2013 Number	2013 Weighted average exercise price p	2012 Number	2012 Weighted average exercise price p
Options outstanding				
At 1 October 2012	3,510,184	132.40	3,385,388	202.63
Granted in the year	-	-	1,117,800	142.56
Exercised or surrendered in the year	(1,375,702)	73.49	(377,402)	63.51
Lapsed during the year	(376,321)	276.26	(615,602)	323.15
At 30 September 2013	<u>1,758,161</u>	<u>147.66</u>	3,510,184	132.40
Options exercisable	<u>510,890</u>	<u>471.65</u>	764,627	437.64

The weighted average remaining contractual life of options outstanding at 30 September 2013 was 15.3 months (2012: 16.6 months). The weighted average market price at exercise for share options exercised in the year was 326.46p (2012: 168.47p).

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

Grant date	Period exercisable	Exercise price	Number 2013	Number 2012
Executive Schemes				
14/03/2003	14/03/2006 to 14/03/2013	297.30p	-	336,348
18/12/2003	18/12/2006 to 18/12/2013	540.40p	188,190	188,190
01/12/2004	01/12/2007 to 01/12/2014	555.34p	236,942	236,942
			<u>425,132</u>	<u>761,480</u>
Sharesave Schemes				
20/06/2007	01/08/2012 to 01/02/2013	685.84p	-	3,147
18/07/2008	01/09/2013 to 01/03/2014	63.00p	51,666	1,031,760
20/07/2010	01/09/2013 to 01/03/2014	100.32p	31,035	441,073
20/07/2010	01/09/2015 to 01/03/2016	100.32p	183,876	183,876
20/12/2011	01/02/2015 to 01/08/2015	142.56p	898,247	920,643
20/12/2011	01/02/2017 to 01/08/2017	142.56p	168,205	168,205
			<u>1,333,029</u>	<u>2,748,704</u>
			<u>1,758,161</u>	<u>3,510,184</u>

The numbers of share options outstanding and the exercise prices under each of the arrangements shown above which was outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the respective scheme rules.

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 awards were made in the year ended 30 September 2013. Details of the awards over £1 ordinary shares made in the year ended 30 September 2012, which were all made under the Sharesave scheme, are shown below.

Grant date	20/12/11	20/12/11
Number of awards granted	945,387	172,413
Market price at date of grant	175.50p	175.50p
Contractual life (years)	3.0	5.0
Fair value per share at date of grant	71.67p	72.05p
Inputs to valuation model		
Expected volatility	66.27%	66.27%
Expected life at grant date (years)	3.5	5.5
Risk-free interest rate	1.35%	1.35%
Expected dividend yield	2.28%	2.28%
Expected annual departures	5.00%	5.00%

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.

(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 2013 and 30 September 2012 were:

Grant date	Period exercisable	Number 2013	Number 2012
09/01/2007	09/01/2010 to 09/01/2017 †	3,294	3,294
28/03/2007	28/03/2010 to 28/03/2017 †	3,164	3,164
14/06/2007	14/06/2010 to 14/06/2017 †	6,320	6,320
26/09/2007	26/09/2010 to 26/09/2017 †	10,032	10,032
26/11/2007	26/11/2010 to 26/11/2017 †	25,200	30,588
18/03/2008	18/03/2011 to 18/03/2018 †	95,975	103,345
29/09/2008	29/09/2011 to 29/09/2018 †	-	278,287
21/05/2009	21/05/2012 to 21/05/2019 †	556,580	2,605,821
04/01/2010	04/01/2013 to 04/01/2020 †	784,520	1,797,822
02/09/2010	02/09/2013 to 02/09/2020 †	-	141,844
17/12/2010	17/12/2013 to 17/12/2020 *	1,906,736	1,906,736
21/12/2011	21/12/2014 to 21/12/2021 *	2,154,577	2,154,577
28/02/2013	28/02/2016 to 28/02/2023 ‡	1,318,542	-
23/09/2013	23/09/2016 to 23/09/2023 ‡	20,894	-
		6,885,834	9,041,830

† These awards, which were conditional on the achievement of performance based criteria, have now vested.

* 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.

‡ 50% of these awards are subject to the TSR test, as above, and 50% are subject to an EPS test. The EPS test provides that 25% of EPS tested awards will vest where EPS growth is equal to the increase in the retail price index plus 3%, increasing on a straight line basis to full vesting for EPS growth equal to the increase in the retail price index plus 7% or more.

The number of share options outstanding and the exercise price under each of the arrangements shown above which were outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the respective scheme rules.

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 over £1 ordinary shares made in the year ended 30 September 2013 and the year ended 30 September 2012 are shown below:

Grant date	28/02/13	23/09/13	21/12/11
Number of awards granted	1,318,542	20,894	2,154,576
Market price at date of grant	321.20p	311.10p	176.90p
Fair value per share at date of grant	187.11p	218.68p	105.53p
Inputs to valuation model			
Expected volatility	32.80%	31.43%	45.13%
Risk-free interest rate	0.68%	1.72%	1.35%
Expected dividend yield	1.92%	2.22%	2.26%

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.

(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 2013 and 30 September 2012 were:

Grant date	Period exercisable	Number 2013	Number 2012
05/01/2010	01/10/2012 to 30/09/2013	-	169,287
11/01/2011	01/10/2013 to 30/09/2014	215,654	215,654
21/12/2011	01/10/2014 to 30/09/2015	301,025	301,025
23/11/2012	01/10/2015 to 30/09/2016	259,537	-
		776,216	685,966

The shares awarded can be exercised from one year from the vesting date. The vesting date is the third anniversary of the start of the financial year in which the grant is awarded.

The fair value of Deferred Bonus awards issued in the year was determined using a Black-Scholes Merton model. Details of the awards over £1 ordinary shares made in the year ended 30 September 2013 and the year ended 30 September 2012 are shown below.

Grant date	23/11/12	21/12/11
Number of awards granted	259,537	301,025
Market price at date of grant	248.4p	176.90p
Fair value per share at date of grant	231.0p	165.30p
Inputs to valuation model		
Risk-free interest rate	0.78%	1.35%
Expected dividend yield	2.42%	2.26%

(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 2013 and at 30 September 2012 were:

Grant date	Period exercisable	Number 2013	Number 2012
09/01/2007	09/01/2010 to 09/01/2017	5,625	5,625
02/01/2008	02/01/2011 to 02/01/2018	22,329	22,329
05/01/2010	05/01/2013 to 05/01/2023	109,925	142,347
		137,879	170,301

The numbers of share options outstanding and the exercise prices under each of the arrangements shown above which was outstanding at the time of the share consolidation on 29 January 2008 and the rights issue on 21 February 2008 were adjusted in accordance with the respective scheme rules.

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 2013 or the year ended 30 September 2012.

16. AUDITOR REMUNERATION

The analysis of fees payable to the Company's auditors and their associates, excluding irrecoverable VAT, required by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 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.

	2013 £000	2013 £000	2012 £000	2012 £000
Audit fee of the company		178		172
Other services				
Audit of subsidiary undertakings pursuant to legislation		305		288
Total audit fees		483		460
Audit related assurance services				
Interim review		40		40
Tax compliance services	126		118	
Tax advisory services	571		295	
		697		413
Other assurance services				
Securitisation reporting		145		59
Corporate finance services		83		-
Other services		260		102
Total fees		1,708		1,074
Irrecoverable VAT		342		215
Total cost to the Group		2,050		1,289
Of which:				
Charged to profit and loss account (note 12)		1,876		1,219
Included in issue costs of debt		174		70
Total cost to the Group		2,050		1,289

In addition to the amounts above, the auditors received fees of £7,000 (2012: £7,000), excluding VAT, in respect of the audit of the Group pension scheme.

Fees paid to the auditors and their associates for non-audit services to the Company are not disclosed because the consolidated accounts of the Group are required to disclose such fees on a consolidated basis.

17. PROVISIONS FOR LOSSES

	2013 £m	2012 £m
Impairment of financial assets (note 32)		
First mortgage loans	6.8	12.2
Other secured loans	4.2	6.0
Finance lease receivables	0.1	0.5
Retail finance loans	-	0.1
Other loans	4.1	5.3
	<u>15.2</u>	<u>24.1</u>

18. FAIR VALUE NET GAINS

	2013 £m	2012 £m
Net gain on derivatives designated as fair value hedges	1.2	2.2
Fair value adjustments from hedge accounting	<u>(1.2)</u>	<u>(2.2)</u>
Ineffectiveness of fair value hedges	-	-
Ineffectiveness of cash flow hedges	-	-
Net gains on other derivatives	<u>1.3</u>	<u>1.3</u>
	<u>1.3</u>	<u>1.3</u>

The fair value net gain 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.

19. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2013 £m	2012 £m
Current tax		
UK Corporation Tax on profits of the period	18.4	20.0
Adjustment in respect of prior periods	(0.1)	(0.4)
Total current tax	18.3	19.6
Deferred tax	1.9	3.7
Tax charge on profit on ordinary activities	20.2	23.3

(b) Deferred tax charge for the year

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

	2013 £m	2012 £m
Accelerated tax depreciation	-	0.1
Retirement benefit obligations	0.2	0.3
Impairment and other provisions	0.3	1.8
Utilisation of tax losses	2.6	3.0
Other timing differences	(1.1)	(0.3)
Deferred tax charge for the year	2.0	4.9
Recognition of liability not previously recognised	2.2	-
Change in tax rate	(2.3)	(1.2)
Deferred tax charge (note 51)	1.9	3.7

During the year ended 30 September 2012 the Government enacted provisions reducing the rate of corporation tax from 26.0% to 24.0% with effect from 1 April 2012 and 23.0% from 1 April 2013. During the year ended 30 September 2013 the Government enacted provisions further reducing the rate of corporation tax to 21.0% with effect from 1 April 2014 and 20.0% from 1 April 2015. Therefore the standard rate of corporation tax applicable to the Group for the year ended 30 September 2013 was 23.5%, the rate for the year ending 30 September 2014 is expected to be 22.0%, the rate for the year ending 30 September 2015 is expected to be 20.5% and the rate in subsequent years is expected to be 20.0%. The expected impact on deferred tax balances of the changes to 24.0% and 23.0% was accounted for in the year ended 30 September 2012 and the expected impact of the changes to 21.0% and 20.0% has been accounted for in the year ended 30 September 2013.

(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 23.5% (2012: 25%). The differences are explained below:

	2013 £m	2012 £m
Profit on ordinary activities before taxation	105.4	95.5
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.5% (2012: 25%)	24.8	23.9
Effects of:		
Permanent differences	(2.2)	1.0
Change in rate of taxation on deferred tax assets and liabilities	(2.3)	(1.2)
Prior year (credit)	(0.1)	(0.4)
Tax charge for the year	20.2	23.3

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

The Company's profit after tax for the financial year amounted to £66.9m (2012: £61.1m). A separate income statement has not been prepared for the Company under the provisions of Section 408 of the Companies Act 2006.

The Company has no other items of comprehensive income for the years ended 30 September 2013 or 30 September 2012.

21. EARNINGS PER SHARE

Earnings per ordinary share is calculated as follows:

	2013	2012
Profit for the year (£m)	<u>85.2</u>	<u>72.2</u>
Basic weighted average number of ordinary shares ranking for dividend during the year (million)	300.5	297.8
Dilutive effect of the weighted average number of share options and incentive plans in issue during the year (million)	<u>9.9</u>	<u>9.4</u>
Diluted weighted average number of ordinary shares ranking for dividend during the year (million)	<u>310.4</u>	<u>307.2</u>
Earnings per ordinary share - basic	28.4p	24.2p
- diluted	<u>27.5p</u>	<u>23.5p</u>

22. TAX CREDITED / (CHARGED) TO EQUITY

	The Group		The Company	
	2013 £m	2012 £m	2013 £m	2012 £m
On actuarial (loss) on pension scheme (note 50)	0.1	(0.2)	-	-
On gains on cash flow hedges (note 42)	(0.2)	0.4	-	-
Tax on items recognised in comprehensive income	(0.1)	0.2	-	-
On share based payment (note 43)	3.4	0.9	-	-
Total tax credited to equity	<u>3.3</u>	<u>1.1</u>	<u>-</u>	<u>-</u>
Of which				
Current tax	3.7	-	-	-
Deferred tax (note 51)	(0.4)	1.1	-	-
	<u>3.3</u>	<u>1.1</u>	<u>-</u>	<u>-</u>

Included in tax credited to equity in the year ended 30 September 2013 is £0.8m (2012: £0.4m) charged in respect of the effect of the changes in corporation tax rates described in note 19 on deferred tax assets.

23. INTANGIBLE ASSETS

	Goodwill (note 24)	Computer software	Other intangible assets	Total
	£m	£m	£m	£m
Cost				
At 1 October 2011	7.6	3.3	8.1	19.0
Additions	-	0.8	-	0.8
Disposals	-	-	-	-
At 30 September 2012	7.6	4.1	8.1	19.8
Additions	-	0.6	-	0.6
Disposals	-	(0.4)	-	(0.4)
At 30 September 2013	7.6	4.3	8.1	20.0
Accumulated amortisation and impairment				
At 1 October 2011	6.0	2.2	1.5	9.7
Amortisation charge for the year	-	0.5	0.5	1.0
On disposals	-	-	-	-
At 30 September 2012	6.0	2.7	2.0	10.7
Amortisation charge for the year	-	0.6	0.6	1.2
On disposals	-	(0.4)	-	(0.4)
At 30 September 2013	6.0	2.9	2.6	11.5
Net book value				
At 30 September 2013	1.6	1.4	5.5	8.5
At 30 September 2012	1.6	1.4	6.1	9.1
At 30 September 2011	1.6	1.1	6.6	9.3

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

24. GOODWILL

The goodwill carried in the accounts was recognised on the acquisition of The Business Mortgage Company and its subsidiaries ('TBMC') in December 2008. 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.

An impairment review undertaken at 30 September 2009 indicated a write down of £6.0m which was charged to the profit and loss account. Further reviews were undertaken at each year-end up to 30 September 2013 each of which indicated no further impairment.

The recoverable amount of TBMC used in this impairment testing is determined on a value in use basis using pre-tax cash flow projections based on financial budgets approved by the Board covering a four year period. The pre-tax discount rate applied to the cash flow projection is 6.45% and cash flows beyond the four year budget are extrapolated using a 2.0% 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.

25. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Land and Buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 October 2011	24.3	7.1	31.4
Additions	0.4	1.2	1.6
Disposals	-	(1.6)	(1.6)
At 30 September 2012	24.7	6.7	31.4
Additions	0.4	0.6	1.0
Disposals	(1.3)	(0.4)	(1.7)
At 30 September 2013	23.8	6.9	30.7
Accumulated depreciation			
At 1 October 2011	14.9	5.1	20.0
Charge for the year	1.4	0.7	2.1
On disposals	-	(1.4)	(1.4)
At 30 September 2012	16.3	4.4	20.7
Charge for the year	1.2	0.9	2.1
On disposals	(1.3)	(0.4)	(1.7)
At 30 September 2013	16.2	4.9	21.1
Net book value			
At 30 September 2013	7.6	2.0	9.6
At 30 September 2012	8.4	2.3	10.7
At 30 September 2011	9.4	2.0	11.4

The net book value of land and buildings includes £5.6m in respect of land and buildings held under finance leases (2012: £6.7m, 2011: £7.7m).

After the year end, on 4 November 2013, the Group acquired the freehold in its head office building, which it had occupied under the terms of a sale and leaseback agreement. The cash consideration paid was £23.7m and on the completion of the transaction the leasehold fixed asset included above at a value of £5.6m and the related lease creditor, included in financial liabilities at 30 September 2013 at £10.2m (note 49) were both extinguished.

(b) The Company

	Land and buildings £m
Cost	
At 1 October 2011, 30 September 2012 and 30 September 2013	20.8
Accumulated depreciation	
At 1 October 2011	13.1
Charge for the year	1.0
At 30 September 2012	14.1
Charge for the year	1.1
At 30 September 2013	15.2
Net book value	
At 30 September 2013	5.6
At 30 September 2012	6.7
At 30 September 2011	7.7

The net book value of land and buildings represents buildings held under finance leases.

After the year end, on 4 November 2013, the Company acquired the freehold in its head office building, which it had occupied under the terms of a sale and leaseback agreement. The cash consideration paid was £23.7m and on the completion of the transaction the leasehold fixed asset shown above and the related lease creditor, included in financial liabilities at 30 September 2013 at £10.2m (note 49), were both extinguished.

26. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in Group Companies £m	Loans to Group Companies £m	Loans to ESOP Trusts £m	Total £m
At 1 October 2011	252.3	490.2	4.4	746.9
Investments in subsidiaries	-	-	-	-
Disposal of subsidiaries	-	-	-	-
Loans advanced	-	14.2	2.1	16.3
Loans repaid	-	(23.9)	-	(23.9)
Provision movements	(116.3)	-	(0.4)	(116.7)
At 30 September 2012	136.0	480.5	6.1	622.6
Investments in subsidiaries	61.7	-	-	61.7
Disposal of subsidiaries	(0.1)	-	-	(0.1)
Loans advanced	-	19.3	4.1	23.4
Loans repaid	-	(23.3)	-	(23.3)
Provision movements	(3.7)	-	(2.4)	(6.1)
At 30 September 2013	193.9	476.5	7.8	678.2

Investments in and disposals of subsidiaries represent transactions between the Company and various of its subsidiaries.

During the year ended 30 September 2013 the Company received £54.7m in dividend income from its subsidiaries (2012: £164.7m) and £30.6m of interest on loans to Group companies (2012: £32.3m).

The principal operating subsidiaries, and the nature of the Group's interest in them, are shown in note 27.

27. PRINCIPAL OPERATING SUBSIDIARIES

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 Mortgages (2010) Limited	100%	Residential mortgages
Paragon Car Finance Limited	100%	Vehicle finance
Idem Capital Holdings Limited	100%	Intermediate holding company
Moorgate Servicing Limited	100%	Intermediate holding company
Idem Jersey (No. 1) Limited	100%	Asset investment
SPV Securities Limited	100%	Asset investment
The Business Mortgage Company Limited	100%	Mortgage broker
Paragon Fourth Funding Limited	100%	Residential mortgages
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 Mortgages (No. 16) PLC	100%	Residential mortgages
Paragon Mortgages (No. 17) 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	100% *	Residential mortgages
Subsidiary of Moorgate Servicing Limited		
Redbrick Survey and Valuation Limited	100%	Surveyors and property consulting
Direct and indirect subsidiaries of Idem Capital Holdings Limited		
Moorgate Loan Servicing Limited	100%	Asset administration
Idem (No. 3) Limited	100%	Asset investment
Idem Capital Securities Limited	100%	Asset investment
Paragon Personal Finance Limited	100%	Consumer loan finance

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 financial year end of all of the Group's subsidiary companies is 30 September. 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.

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.

As part of the Group's financing arrangements certain mortgage loans originated by Paragon Mortgages (2010) Limited and Mortgage Trust Limited have been sold to special purpose entity companies, which had raised non-recourse finance to fund these purchases. The shares of these companies are ultimately beneficially owned by certain charities under charitable trusts and are considered to be controlled by the Group, 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, which are registered and operate in the United Kingdom comprise:

	Principal Activity
First Flexible No. 4 plc	Residential mortgages
First Flexible No. 5 plc	Residential mortgages
Paragon Fifth Funding Limited	Residential mortgages
Paragon Mortgages (No. 18) PLC	Residential mortgages

28. FINANCIAL ASSETS

(a) The Group

	Note	2013 £m	2012 £m	2011 £m
Loans and receivables	29	8,800.2	8,692.1	8,716.7
Finance lease receivables	30	1.3	2.5	7.5
Loans to customers	31	8,801.5	8,694.6	8,724.2
Fair value adjustments from portfolio hedging	33	-	1.1	3.4
Investments in structured entities	34	23.8	9.1	11.8
Derivative financial assets	35	890.0	800.4	1,151.8
		9,715.3	9,505.2	9,891.2

The Group's loan assets and investments in structured entities at 30 September 2013, analysed between those assets acquired through its Idem Capital loan investment operation and those generated through other sources, principally loans advanced on its own account, was as follows:

	2013 Idem £m	2013 Other £m	2013 Total £m	2012 Idem £m	2012 Other £m	2012 Total £m
First mortgages	17.5	8,384.3	8,401.8	19.0	8,276.6	8,295.6
Consumer loans	152.4	247.3	399.7	107.3	291.7	399.0
Loans to customers	169.9	8,631.6	8,801.5	126.3	8,568.3	8,694.6
Investments in structured entities	23.8	-	23.8	9.1	-	9.1
Total investments in loans	193.7	8,631.6	8,825.3	135.4	8,568.3	8,703.7

(b) The Company

	2013 £m	2012 £m	2011 £m
Derivative financial assets	-	-	4.0
	-	-	4.0

29. LOANS AND RECEIVABLES

Loans and receivables at 30 September 2013, 30 September 2012 and 30 September 2011, which are all denominated and payable in sterling, were:

	2013	2012	2011
	£m	£m	£m
First mortgage loans	8,401.8	8,295.6	8,360.4
Secured loans	248.4	279.9	340.1
Retail finance loans	1.5	2.0	2.9
Other unsecured loans	148.5	114.6	13.3
	8,800.2	8,692.1	8,716.7

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:

	2013	2012
	£m	£m
First mortgage loans	54.4	70.7
Secured loans	41.6	41.6
	96.0	112.3

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 2013 the Group's commitment in respect of such facilities was £6.7m (2012: £32.3m).

The loans shown above pledged as collateral for the liabilities described in note 48 at 30 September 2013 and 30 September 2012 were:

	First Mortgages £m	Consumer Finance £m	Total £m
30 September 2013			
In respect of:			
Asset backed loan notes	6,940.8	240.7	7,181.5
Warehouse facilities	1,426.7	-	1,426.7
Total pledged as collateral	8,467.5	240.7	8,608.2
Not pledged as collateral	34.3	157.7	192.0
	8,401.8	398.4	8,800.2
30 September 2012			
In respect of:			
Asset backed loan notes	6,674.4	282.2	6,956.6
Warehouse facilities	1,582.7	-	1,582.7
Total pledged as collateral	8,257.1	282.2	8,539.3
Not pledged as collateral	38.5	114.3	152.8
	8,295.6	396.5	8,692.1

30. FINANCE LEASE RECEIVABLES

The Group's finance lease receivables are car finance loans. The average contractual life of such loans is 56 months (2012: 56 months), but it is likely that a significant proportion of customers will choose to settle their obligations early.

The minimum lease payments due under these loan agreements are:

	2013 £m	2012 £m	2011 £m
Amounts receivable			
Within one year	0.9	1.6	5.2
Within two to five years	1.2	1.7	3.0
After five years	0.1	-	0.2
	<u>2.2</u>	<u>3.3</u>	<u>8.4</u>
Less: future finance income	(0.2)	(0.2)	(0.5)
Present value	<u>2.0</u>	<u>3.1</u>	<u>7.9</u>

The present values of those payments, net of provisions for impairment, carried in the accounts are:

	2013 £m	2012 £m	2011 £m
Amounts receivable			
Within one year	0.8	1.5	4.9
Within two to five years	1.1	1.6	2.8
After five years	0.1	-	0.2
	<u>2.0</u>	<u>3.1</u>	<u>7.9</u>
Present value	2.0	3.1	7.9
Allowance for uncollectible amounts	(1.0)	(1.2)	(1.4)
Provision for recoveries	0.3	0.6	1.0
	<u>1.3</u>	<u>2.5</u>	<u>7.5</u>
Carrying value	1.3	2.5	7.5

The Group considers that the fair value of its finance lease receivables is not significantly different to their carrying values. Whilst 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 Group has insufficient information on the current condition of finance leased vehicles to derive a reliable estimate of the value which could be realised from vehicles to offset against arrears accounts. Accordingly, no such disclosure is provided.

The loans shown above pledged as collateral for liabilities at 30 September 2013 and 30 September 2012 were:

	2013 £m	2012 £m
In respect of:		
Asset backed loan notes	1.0	1.9
Warehouse facilities	-	-
	<u>1.0</u>	<u>1.9</u>
Total pledged as collateral	1.0	1.9
Not pledged as collateral	0.3	0.6
	<u>1.3</u>	<u>2.5</u>

31. LOANS TO CUSTOMERS

The movements in the Group's investment in loans to customers in the year ended 30 September 2013 and the year ended 30 September 2012 were:

	2013 £m	2012 £m
Cost		
At 1 October 2012	8,694.6	8,724.2
Additions	436.3	310.0
Disposals	-	(5.9)
Effective Interest Rate ('EIR') adjustments	34.5	6.7
Other debits	238.4	283.2
Provision charge (note 32)	(15.2)	(24.1)
Repayments and redemptions	(587.1)	(599.5)
At 30 September 2013	8,801.5	8,694.6

'Other debits' includes primarily interest and fees charged to customers on loans outstanding.

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

Following the year end, on 8 October 2013 the Group acquired a portfolio of non-performing personal secured and unsecured loans from HSBC Bank plc. The cash paid was £13.5m.

32. 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 2011	70.7	45.2	0.4	116.3
Charge for the year (note 17)	12.2	11.4	0.5	24.1
On assets sold	-	(11.6)	-	(11.6)
Amounts written off	(6.1)	(11.4)	-	(17.5)
Amounts recovered	(0.4)	(1.8)	(0.3)	(2.5)
At 30 September 2012	76.4	31.8	0.6	108.8
Charge for the year (note 17)	6.8	8.3	0.1	15.2
On assets sold	-	-	-	-
Amounts written off	(1.4)	(9.4)	-	(10.8)
Amounts recovered	(0.1)	(1.7)	-	(1.8)
At 30 September 2013	81.7	29.0	0.7	111.4

33. 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.

34. INVESTMENT IN STRUCTURED ENTITIES

Investments in structured entities represent the Group's contribution made to special purpose vehicle ('SPV') companies established and controlled by unrelated third parties to purchase pools of loan assets. All such investments are denominated in sterling, unlisted and are considered to be debt investments as defined by IFRS. The underlying loans are secured and unsecured consumer loans made to United Kingdom borrowers. The Group is under no obligation to make any further contribution to these entities.

The movements in the Group's investment in structured entities in the year ended 30 September 2013 and the year ended 30 September 2012 were:

	2013 £m	2012 £m
Cost		
At 1 October 2012	9.1	11.8
Additions	21.4	-
Effective Interest Rate ('EIR') income (note 9)	4.1	5.5
Payments received	(10.8)	(8.2)
At 30 September 2013	<u>23.8</u>	<u>9.1</u>

The fair values of investments in structured entities are considered to be not materially different to the amortised cost value at which they are disclosed.

The Group administers the assets of the SPV companies on behalf of the owners. Fee income derived from this activity of £4.7m (2012: £ 1.4m) is included within third party servicing fees (note 11) and £0.7m (2012: £0.1m) is included in other debtors (note 36) in respect of unpaid fees at the year end.

35. 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.

All of the financial derivatives shown are valued using methodologies where the principal inputs are directly or indirectly derived from market data and are therefore classified within level two of the fair value hierarchy laid down by IFRS 7.

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 28) and Financial Liabilities (note 47) respectively.

(a) The Group

	2013 Notional amount £m	2013 Assets £m	2013 Liabilities £m	2012 Notional amount £m	2012 Assets £m	2012 Liabilities £m
Derivatives in accounting hedge relationships						
<i>Fair value hedges</i>						
Interest rate swaps	94.7	-	(0.2)	119.9	-	(1.5)
	94.7	-	(0.2)	119.9	-	(1.5)
<i>Cash flow hedges</i>						
Foreign exchange basis swaps	4,712.3	889.6	-	4,850.5	799.5	-
	4,712.3	889.6	-	4,850.5	799.5	-
	4,807.0	889.6	(0.2)	4,970.4	799.5	(1.5)
Other derivatives						
Interest rate swaps	269.6	0.4	(1.1)	170.8	0.9	(3.1)
Interest rate caps	-	-	-	4.4	-	-
	269.6	0.4	(1.1)	175.2	0.9	(3.1)
Total recognised derivative assets / (liabilities)	5,076.6	890.0	(1.3)	5,145.6	800.4	(4.6)

At 30 September 2013 cash deposits of £120.4m had been pledged as collateral in respect of swaps shown above by the respective swap counterparties (2012: £100.7m) as described in note 6.

All fair value hedging items at 30 September 2012 and at 30 September 2013 relate to the hedging of the Group's loan assets on a portfolio basis.

(b) The Company

The Company had no derivative financial assets or liabilities at either 30 September 2013 or 30 September 2012.

36. OTHER RECEIVABLES

(a) The Group

	Note	2013 £m	2012 £m	2011 £m
Current assets				
Accrued interest income		0.2	0.2	0.5
Prepayments		2.1	1.7	1.0
Bank borrowings	48	1.7	2.7	-
Other debtors		3.6	2.7	3.2
		<u>7.6</u>	<u>7.3</u>	<u>4.7</u>

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.

(b) The Company

	2013 £m	2012 £m	2011 £m
Current assets			
Amounts owed by Group companies	115.0	80.1	79.9
Accrued interest income	-	-	0.1
	<u>115.0</u>	<u>80.1</u>	<u>80.0</u>

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.

37. 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 consolidated 'Cash and Cash Equivalents' balance may be analysed as shown below:

	2013 £m	2012 £m	2011 £m
Free cash	170.8	127.7	195.0
Securitisation cash	414.1	374.9	374.1
ESOP cash	2.4	2.2	2.5
	<u>587.3</u>	<u>504.8</u>	<u>571.6</u>

All 'Cash and Cash Equivalents' shown in the Company balance sheet are included in free cash.

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

38. CALLED-UP SHARE CAPITAL

The share capital of the Company consists of a single class of £1 ordinary shares.

Movements in the issued share capital in the year were:

	2013 Number	2012 Number
Ordinary shares		
At 1 October 2012	301,841,614	299,745,445
Shares issued	4,371,601	2,096,169
At 30 September 2013	306,213,215	301,841,614

During the year the Company issued 3,975,993 shares at par (2012: 2,090,570) to the trustees of its ESOP Trusts in order that they could fulfil their obligations under the Group's share based award arrangements. It also issued 395,608 shares (2012: 5,599) to satisfy options granted under sharesave schemes for a consideration of £398,281 (2012: £5,688).

39. RESERVES

(a) The Group

	Note	2013 £m	2012 £m	2011 £m
Share premium account	40	64.1	64.1	64.1
Merger reserve	41	(70.2)	(70.2)	(70.2)
Cash flow hedging reserve	42	1.7	0.7	1.8
Profit and loss account	43	619.1	555.6	495.0
		614.7	550.2	490.7

(b) The Company

	Note	2013 £m	2012 £m	2011 £m
Share premium account	40	64.1	64.1	64.1
Merger reserve	41	(23.7)	(23.7)	(23.7)
Profit and loss account	43	382.7	333.4	281.8
		423.1	373.8	322.2

40. SHARE PREMIUM ACCOUNT

	The Group		The Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Balance at 1 October 2012	64.1	64.1	64.1	64.1
Balance at 30 September 2013	64.1	64.1	64.1	64.1

41. MERGER RESERVE

	The Group		The Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Balance at 1 October 2012	(70.2)	(70.2)	(23.7)	(23.7)
Balance at 30 September 2013	(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.

42. CASH FLOW HEDGING RESERVE

	Note	The Group		The Company	
		2013 £m	2012 £m	2013 £m	2012 £m
At 1 October 2012		0.7	1.8	-	-
Movement in fair value of hedging derivatives		1.2	(1.5)	-	-
Deferred tax thereon	22	(0.2)	0.4	-	-
At 30 September 2013		1.7	0.7	-	-

The cash flows to which these amounts relate are expected to take place, and to affect profit, over the next 31 years (2012: 32 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 £88.8m on asset backed loan notes denominated in US dollars and euros (2012: gains of £344.9m) 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.

43. PROFIT AND LOSS ACCOUNT

	Note	The Group		The Company	
		2013 £m	2012 £m	2013 £m	2012 £m
At 1 October 2012		555.6	495.0	333.4	281.8
Dividends paid	44	(20.7)	(12.3)	(20.7)	(12.3)
Share options exercised	45	(4.8)	(2.3)	-	-
Charge for share based remuneration	13	3.1	2.8	3.1	2.8
Tax on share based remuneration	22	3.4	0.9	-	-
Actuarial (loss) on retirement benefit obligation	50	(2.7)	(0.7)	-	-
Profit for the year		85.2	72.2	66.9	61.1
At 30 September 2013		619.1	555.6	382.7	333.4

44. EQUITY DIVIDEND

Amounts recognised as distributions to equity shareholders in the Group and the Company in the period:

	2013 Per share	2012 Per share	2013 £m	2012 £m
Equity dividends on ordinary shares				
Final dividend for the year ended 30 September 2012	4.50p	2.65p	13.5	7.9
Interim dividend for the year ended 30 September 2013	2.40p	1.50p	7.2	4.4
	<u>6.90p</u>	<u>4.15p</u>	<u>20.7</u>	<u>12.3</u>

Amounts paid and proposed in respect of the year:

	2013 Per share	2012 Per share	2013 £m	2012 £m
Interim dividend for the year ended 30 September 2013	2.40p	1.50p	7.2	4.4
Proposed final dividend for the year ended 30 September 2013	4.80p	4.50p	14.6	13.5
	<u>7.20p</u>	<u>6.00p</u>	<u>21.8</u>	<u>17.9</u>

Dividends of £0.0m (2012: £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 2013 will be paid on 10 February 2014, subject to approval at the Annual General Meeting, with a record date of 10 January 2014. The dividend will be recognised in the accounts when it is paid.

45. TRANSACTIONS IN SHARES

	The Group		The Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Awards from ESOP schemes				
Proceeds	0.6	0.2	-	-
Cost of shares transferred (note 46)	(5.4)	(2.5)	-	-
(Deficit) on exercise (note 43)	(4.8)	(2.3)	-	-
Shares issued				
Nominal value (note 38)	4.4	2.1	4.4	2.1
Premium on issue (note 40)	-	-	-	-
Proceeds of issue	4.4	2.1	4.4	2.1
(Deficit) / surplus on transactions in own shares	(0.4)	(0.2)	4.4	2.1

46. OWN SHARES

	The Group		The Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Treasury shares				
At 1 October 2012	39.5	39.5	39.5	39.5
Shares purchased	-	-	-	-
At 30 September 2013	39.5	39.5	39.5	39.5
ESOP shares				
At 1 October 2012	9.0	8.9	-	-
Shares purchased	0.5	0.5	-	-
Shares subscribed for (note 38)	4.0	2.1	-	-
Options exercised (note 45)	(5.4)	(2.5)	-	-
At 30 September 2013	8.1	9.0	-	-
Balance at 30 September 2013	47.6	48.5	39.5	39.5
Balance at 1 October 2012	48.5	48.4	39.5	39.5

At 30 September 2013 the number of the Company's own shares held in treasury was 668,900 (2012: 668,900). These shares had a nominal value of £668,900 (2012: £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 2013, the trusts held 1,931,890 ordinary shares (2012: 2,397,557) with a nominal value of £1,931,890 (2012: £2,397,557) and a market value of £6,027,497 (2012: £5,010,894). Options, or other share-based awards, were outstanding against 1,931,890 of these shares at 30 September 2013 (2012: 2,397,557). The dividends on 1,530,185 of these shares have been waived (2012: 1,988,482).

47. FINANCIAL LIABILITIES

(a) The Group

	Note	2013 £m	2012 £m	2011 £m
Current liabilities				
Finance lease liability	49	1.6	1.4	1.2
Bank loans and overdrafts		1.4	0.6	0.6
		<u>3.0</u>	<u>2.0</u>	<u>1.8</u>
Non-current liabilities				
Asset backed loan notes		7,893.2	7,580.9	8,049.7
Corporate bond		110.0	110.0	112.0
Retail bonds		59.1	-	-
Finance lease liability	49	8.6	10.2	11.6
Bank loans and overdrafts		1,311.2	1,453.3	1,492.1
Derivative financial instruments	35	1.3	4.6	9.1
		<u>9,383.4</u>	<u>9,159.0</u>	<u>9,674.5</u>

A maturity analysis of the above borrowings and further details of asset backed loan notes, bank loans, corporate and retail bonds are given in note 48.

(b) The Company

	Note	2013 £m	2012 £m	2011 £m
Current liabilities				
Finance lease liability	49	1.6	1.4	1.2
Non-current liabilities				
Corporate bond		110.0	110.0	112.0
Retail bonds		59.1	-	-
Finance lease liability	49	8.6	10.2	11.6
		<u>177.7</u>	<u>120.2</u>	<u>123.6</u>

A maturity analysis of the above borrowings and further details of corporate and retail bonds are given in note 48.

48. BORROWINGS

Set out below is the contractual maturity profile of the Group's borrowings at 30 September 2013 and 30 September 2012:

	Financial liabilities falling due:				Total £m
	In one year or less, or on demand	In more than one year, but not more than two years	In more than two years, but not more than five years	In more than five years	
	£m	£m	£m	£m	
30 September 2013					
Bank overdrafts	1.4	-	-	-	1.4
Bank loans	-	-	14.0	1,297.2	1,311.2
Corporate bond	-	-	110.0	-	110.0
Retail bonds	-	-	-	59.1	59.1
Asset backed loan notes	-	-	-	7,893.2	7,893.2
	1.4	-	124.0	9,249.5	9,374.9
30 September 2012					
Bank overdrafts	0.6	-	-	-	0.6
Bank loans	-	-	121.0	1,332.3	1,453.3
Corporate bond	-	-	110.0	-	110.0
Retail bonds	-	-	-	-	-
Asset backed loan notes	-	-	-	7,580.9	7,580.9
	0.6	-	231.0	8,913.2	9,144.8

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 2013 comprised £7,641.9m (2012: £7,283.8m, 2011: £7,681.7m) in respect of mortgage backed notes and £251.3m (2012: £297.1m, 2011: £368.0m) in respect of notes backed by other loan assets. The details of the assets backing these securities are given in notes 29 and 30.

The Group publishes detailed information on the performance of all of its note issues on the Bond Investor Reporting section of its website at www.paragon-group.co.uk. A more detailed description of the securitisation structure under which these notes are issued is given in note 6.

On 25 October 2012 a Group company, Paragon Mortgages (No. 17) PLC, issued £195.5m of sterling mortgage backed floating rate notes at par. £175.0m of the notes were rated AAA, £10.5m rated AA and £10.0m rated A. The Group retained £4.5m of subordinated notes and also invested £6.0m in the first loss fund, bringing its total investment to £10.5m, or 5.25% of the issue amount.

On 23 September 2013 a Group company, Paragon Mortgages (No. 18) PLC, issued £267.5m of sterling mortgage backed floating rate notes at par. £238.1m of the notes were rated AAA, £15.7m rated AA and £13.7m rated A. The Group retained £5.5m of subordinated notes and also invested £8.2m in the first loss fund, bringing its total investment to £13.7m, or 5.00% of the issue amount.

Notes in issue at 30 September 2013 and 30 September 2012, net of any held by the Group, were:

Issuer	Maturity date	Call date	Principal outstanding		Average interest margin	
			2013 £m	2012 £m	2013 %	2012 %
Sterling notes						
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	81.6	83.6	0.42	0.42
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	220.3	226.8	0.59	0.59
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	137.4	142.3	0.38	0.38
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	179.8	181.3	0.56	0.56
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	87.0	89.5	0.28	0.28
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	126.4	129.2	0.38	0.38
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	144.3	146.5	0.35	0.35
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	129.4	131.6	0.30	0.29
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	176.6	181.6	0.29	0.29
Paragon Mortgages (No. 16) PLC	15/04/39	15/10/14	120.5	130.1	2.75	2.75
Paragon Mortgages (No. 17) PLC	18/04/40	15/01/16	193.4	-	1.46	-
Paragon Mortgages (No. 18) PLC	15/03/41	15/12/16	267.5	-	1.25	-
First Flexible No. 4 PLC	01/07/36	01/07/08	72.5	74.7	1.11	1.10
First Flexible No. 5 PLC	01/06/34	01/07/09	78.3	83.8	0.99	0.99
First Flexible No. 6 PLC	01/12/35	01/03/08	71.6	74.2	1.27	1.27
First Flexible No. 7 PLC	15/09/33	15/03/11	56.2	74.2	0.25	0.25
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	62.7	75.0	0.95	0.95
Paragon Secured Finance (No. 1) PLC	15/11/35	15/11/08	95.1	112.5	1.06	0.98
US dollar notes						
			\$m	\$m	%	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	235.7	241.6	0.74	0.74
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	22.4	23.2	0.36	0.36
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	163.1	176.3	0.09	0.09
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	468.1	484.4	0.10	0.10
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	1,053.7	1,089.3	0.24	0.24
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	1,113.7	1,147.6	0.23	0.23
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	1,285.6	1,324.6	0.20	0.20
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	876.1	903.3	0.19	0.19
First Flexible No. 6 PLC	01/12/35	01/03/08	11.1	11.5	0.56	0.56
Euro notes						
			€m	€m	%	%
Paragon Mortgages (No. 7) PLC	15/05/43	15/05/08	239.7	245.6	0.66	0.66
Paragon Mortgages (No. 8) PLC	15/04/44	15/10/08	295.6	304.3	0.48	0.48
Paragon Mortgages (No. 9) PLC	15/05/41	15/05/09	213.3	220.9	0.56	0.56
Paragon Mortgages (No. 10) PLC	15/06/41	15/12/09	264.6	265.5	0.41	0.41
Paragon Mortgages (No. 11) PLC	15/10/41	15/04/10	274.3	277.9	0.52	0.52
Paragon Mortgages (No. 12) PLC	15/11/38	15/08/10	374.6	379.4	0.51	0.51
Paragon Mortgages (No. 13) PLC	15/01/39	15/10/10	354.6	360.4	0.40	0.39
Paragon Mortgages (No. 14) PLC	15/09/39	15/03/11	390.7	395.8	0.43	0.43
Paragon Mortgages (No. 15) PLC	15/12/39	15/06/11	279.8	282.4	0.67	0.67
First Flexible No. 6 PLC	01/12/35	01/03/08	40.6	42.1	1.05	1.05
Paragon Personal and Auto Finance (No. 3) PLC	15/04/36	15/04/09	108.1	129.3	0.84	0.84

(b) Bank borrowings

Assets are typically securitised within twelve months of origination. Before securitisation new loans are financed by a bank loan, referred to as a 'warehouse facility'. These are generally drawn down to fund completions and repaid when assets are securitised. More information on this process is given in note 6 and details of assets held within the warehouse facilities are given in note 29. Details of the Group's bank borrowings are given below.

	Principal value £m	2013 Maximum available facility £m	Carrying value £m	Principal value £m	2012 Maximum available facility £m	Carrying value £m
i) Paragon Second Funding	1,296.2	1,296.2	1,296.2	1,332.3	1,332.3	1,332.3
ii) Paragon Fourth Funding	15.0	250.0	14.0	121.0	200.0	121.0
iii) Paragon Fifth Funding	-	200.0	(1.7)	-	200.0	(2.7)
iv) Redraw facilities	1.0	49.2	1.0	-	63.6	-
	1,312.2	1,795.4	1,309.5	1,453.3	1,795.9	1,450.6

- i) The Paragon Second Funding warehouse 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. This loan is a committed sterling facility provided to Paragon Second Funding Limited by a consortium of banks and is secured on all the assets of Paragon Second Funding Limited, Paragon Car Finance (No. 1) Limited and Paragon Personal Finance (No. 1) Limited. Its final repayment date is 28 February 2050 but it is likely that substantial repayments will be made within the next five years. Interest on this loan is payable monthly in sterling at 0.675% above LIBOR (2012: 0.675% above LIBOR). Repayments of this facility before the final repayment date are restricted to the amount of principal cash realised from the funded assets.
- ii) On 27 September 2010 the Group entered into a £200.0m committed sterling facility provided to Paragon Fourth Funding Limited by Macquarie Bank plc to provide funding for new lending. This facility is secured on all the assets of Paragon Fourth Funding Limited and is available for drawing for a period of two years and has a term of four years. Loans originated in this warehouse are refinanced in the mortgage backed securitisation market from time to time when appropriate. Interest on this loan is payable monthly in sterling at 2.875% above LIBOR. The facility was renewed on substantially the same terms with an increased commitment of £250.0m, for a further two year period on 2 November 2012 and has a renewal process that allows the Group to agree a new two year commitment period prior to the expiry of the existing commitment period. Repayments on this facility are limited to principal cash received from the funded assets.
- iii) To provide further funding for new lending, on 26 September 2012, the Group entered into a £200.0m committed sterling facility provided to Paragon Fifth Funding Limited by the wholesale division of Lloyds Bank. This facility is secured on all the assets of Paragon Fifth Funding Limited and is structured with a three year term to permit drawings and re-drawings in its first 24 months. Loans originated in this warehouse are refinanced in the mortgage backed securitisation market from time to time when appropriate. Interest on this loan is payable monthly in sterling at 2.75% above three month LIBOR. The facility has a renewal process that allows the Group to agree a new commitment period prior to the expiry of the existing commitment period. As with the other warehouses, repayments on this facility are limited to principal cash received from the funded assets. At 30 September 2013 and 30 September 2012 no amounts were drawn on this facility, although it had been used in the intervening period, therefore unamortised debit EIR adjustments are included in other receivables (note 36).
- iv) In addition, certain subsidiary SPV companies of the Group have entered into sterling revolving credit facilities to fund mortgage redraws, where the SPV would otherwise have insufficient principal cash to meet these obligations. Interest on these loans is payable monthly or quarterly, on the same days as for the SPV's Note borrowings, in sterling at 0.30% above the LIBOR applicable to the Note borrowings. The drawings are repayable out of the principal cash received from the SPV assets in preference to all other creditors of the SPV with no further recourse to other Group companies. The facilities are each effectively secured on all of the assets of the SPV concerned.

The weighted average margin above LIBOR on bank borrowings at 30 September 2013 was 0.700% (2012: 0.858%).

(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 bore interest at a fixed rate of 7% per annum until 20 April 2012, after which interest was payable at a fixed rate of 3.729% per annum. The bonds are repayable on 20 April 2017. They are unsecured and subordinated to any other creditors of the Company. At 30 September 2013 £110.0m (2012: £110.0m, 2011: £112.0m) was included within the financial liabilities of the Company and the Group in respect of these bonds.

(d) Retail bonds

On 11 February 2013 the Company inaugurated a £1,000.0m Euro Medium Term Note Programme under which it may issue retail bonds, or other notes, within a twelve month period. The terms of issue for each tranche of notes are separately determined. These bonds are listed on the London Stock Exchange and have a fixed term, but are callable at the option of the Company. A summary of the retail bonds outstanding under this programme is given below.

Maturity date	Interest terms	Issue price	Currency	2013 £m	2012 £m
5 December 2020	6.00% p.a. fixed	par	GBP	60.0	-
				<u>60.0</u>	<u>-</u>

The notes are unsubordinated unsecured liabilities of the Company and the amount included in Financial Liabilities in the accounts of the Group and the Company in respect of these bonds is £59.1m (2012: £nil).

49. OBLIGATIONS UNDER FINANCE LEASES

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

After the year end the freehold of the property was reacquired by the Company and the liability was extinguished (note 25).

The minimum lease payments payable under this lease were:

	2013 £m	2012 £m	2011 £m
Amounts payable			
Within one year	2.4	2.3	2.2
Within two to five years	9.6	9.6	9.5
After five years	0.6	3.0	5.4
	<u>12.6</u>	<u>14.9</u>	<u>17.1</u>
Less: future finance charges	(2.4)	(3.3)	(4.3)
Present value of lease obligations	<u>10.2</u>	<u>11.6</u>	<u>12.8</u>

The present value of these payments recognised in the financial statements is:

	2013 £m	2012 £m	2011 £m
Amounts payable			
Within one year	1.6	1.4	1.2
Within two to five years	8.0	7.4	6.7
After five years	0.6	2.8	4.9
	<u>10.2</u>	<u>11.6</u>	<u>12.8</u>

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 7.99% (2012: 7.99%).

50. 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 2013 and updated to 30 September 2013 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 as a percentage of pensionable salaries is expected to increase as the members of the Plan approach retirement. However the membership is expected to reduce so that the service charge in monetary terms will gradually reduce. The major weighted average assumptions used by the actuary were (in nominal terms):

	30 September 2013	30 September 2012	30 September 2011
In determining net pension cost for the year			
Discount rate	4.60%	5.25%	5.20%
Expected long term rate of return on scheme assets	5.10%	5.90%	6.30%
Rate of compensation increase	3.65%	4.10%	4.00%
Rate of price inflation	2.65%	3.10%	3.00%
Rate of increase of pensions	2.55%	3.00%	3.00%
In determining benefit obligations			
Discount rate	4.50%	4.60%	5.25%
Rate of compensation increase	3.80%	3.65%	4.10%
Rate of price inflation	3.30%	2.65%	3.10%
Rate of increase of pensions	3.20%	2.55%	3.00%
Further life expectancy at age 60			
Male member aged 60	29	30	30
Female member aged 60	31	32	32
Male member aged 40	31	32	32
Female member aged 40	33	34	34

The assets in the Plan at 30 September 2013, 30 September 2012 and 30 September 2011 and the expected rates of return were:

	At 30 September 2013		At 30 September 2012		At 30 September 2011	
	Long term rate of return expected	Value £m	Long term rate of return expected	Value £m	Long term rate of return expected	Value £m
Equities	6.80%	50.3	6.05%	40.7	6.75%	34.0
Bonds	4.10%	22.6	3.60%	22.5	4.65%	19.3
Other	5.40%	6.5	4.60%	6.1	5.30%	5.8
Total market value of assets	5.90%	79.4	5.10%	69.3	5.90%	59.1
Present value of scheme liabilities		(95.1)		(83.2)		(73.5)
(Deficit) in the scheme		(15.7)		(13.9)		(14.4)

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

At 30 September 2013 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 2014 are 50% equities, 30% bonds and 20% other assets.

In conjunction with the Trustee, the Group has continued to conduct asset-liability reviews of the Plan. These studies are used to assist the Trustee 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 Trustee 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 2013 actuarial valuation, the Trustee put in place a recovery plan. The Trustee's recovery plan aims to meet the statutory funding objective within six years and five months from the date of valuation, i.e. by 31 August 2019.

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 were as follows:

	2013	2012
	£m	£m
At 1 October 2012	69.3	59.1
Movement in year		
Contributions by the Group	2.9	2.9
Contributions by scheme members	0.3	0.3
Benefits paid	(1.3)	(0.9)
Expected return on scheme assets	3.6	3.5
Actuarial gain	4.6	4.4
At 30 September 2013	79.4	69.3

The actual return on scheme assets in the year ended 30 September 2013 was £8.2m (2012: £8.0m).

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

	2013	2012
	£m	£m
At 1 October 2012	83.2	73.5
Movement in year		
Current service cost	1.7	1.5
Past service costs	-	-
Contributions by scheme members	0.3	0.3
Plan curtailments	-	-
Benefits paid	(1.3)	(0.9)
Finance cost	3.8	3.9
Actuarial loss	7.4	4.9
At 30 September 2013	95.1	83.2

The most recent valuation of the scheme liabilities on a buy-out basis obtained by the Trustee in accordance with section 224 of the Pensions Act 2004 was calculated at 31 March 2013, when the valuation on that basis was £144.5m.

The sensitivity of the valuation of the scheme liabilities to the principal assumptions disclosed above at 30 September 2013 is as follows:

Assumption	Increase in assumption	Impact on scheme liabilities
Discount rate	0.1% p.a.	2.2% decrease
Rate of inflation *	0.1% p.a.	0.4% increase
Rate of salary growth	0.1% p.a.	1.9% increase
Rates of mortality	1 year of life expectancy	2.0% increase

* maintaining a 1% real increase in salary growth

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

	2013 Years	2012 Years
Category of member		
Active members	24	27
Deferred pensioners	25	28
Current pensioners	15	14
	<hr/>	<hr/>
All members	23	27

With effect from 27 June 2011 the agreed rate of employer contributions was 26.6% of gross salaries for participating employees, following the finalisation of the 31 March 2010 actuarial valuation. Since 1 April 2010 an additional contribution of £1.5m per annum has been paid by monthly instalments. From 8 October 2013, following the finalisation of the March 2013 valuation, contributions rose to 27.0% of gross salaries for participating employees, the £1.5m contribution remained in place and a further additional contribution of £0.4m to cover administration and life cover was agreed.

The present best estimate of the contributions to be made to the plan by the Group in the year ending 30 September 2014 is £3.3m.

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

	Note	2013 £m	2012 £m
Current service cost		1.7	1.5
Past service cost		-	-
Plan curtailments		-	-
		<hr/>	<hr/>
Included within operating expenses	13	1.7	1.5
Expected return on scheme assets	9	(3.6)	(3.5)
Funding cost of scheme liability	10	3.8	3.9
		<hr/>	<hr/>
Total expense recognised in profit		1.9	1.9

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

	Note	2013 £m	2012 £m
Gain on scheme assets		4.6	4.4
(Loss) on scheme liabilities		(7.4)	(4.9)
		<hr/>	<hr/>
Total actuarial (loss)		(2.8)	(0.5)
Tax thereon	22	0.1	(0.2)
		<hr/>	<hr/>
Net actuarial (loss)	43	(2.7)	(0.7)

The tax shown above is disproportionate to the actuarial losses recorded in the periods due to the effect on deferred tax of the changes in tax rate described in note 19.

The cumulative value of actuarial losses charged through reserves to the profit and loss account 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 £37.0m (2012: £34.2m):

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

	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m
Fair value of scheme assets	79.4	69.3	59.1	57.2	52.0
Present value of scheme obligations	(95.1)	(83.2)	(73.5)	(73.7)	(63.5)
(Deficit) in the scheme	(15.7)	(13.9)	(14.4)	(16.5)	(11.5)
Experience adjustments on scheme assets:					
Amount (£m)	4.6	4.4	(4.4)	0.4	2.8
Percentage of scheme assets	5.8%	6.4%	(7.5)%	0.6%	5.3%
Experience adjustments on scheme liabilities:					
Amount (£m)	(0.2)	(0.1)	2.8	-	-
Percentage of scheme liabilities	(0.3)%	(0.1)%	3.8%	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 2013 were £0.3m (2012: £0.2m) (note 13).

51. DEFERRED TAX

(a) The Group

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

	Note	2013	2012	2011
		£m	£m	£m
Net liability / (asset) at 1 October 2012		7.6	5.0	(1.5)
Income statement charge	19	1.9	3.7	6.3
Charge / (credit) to equity	22	0.4	(1.1)	0.2
Net liability at 30 September 2013		9.9	7.6	5.0

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

	2013	2012	2011
	£m	£m	£m
Accelerated tax depreciation	(0.7)	(0.8)	(1.0)
Retirement benefit obligations	(3.2)	(3.2)	(3.6)
Impairment and other provisions	14.6	16.5	16.2
Tax losses	(0.6)	(3.3)	(6.6)
Other timing differences	(0.2)	(1.6)	-
Net deferred tax liability	9.9	7.6	5.0

(b) The Company

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

	2013 £m	2012 £m	2011 £m
Net liability at 1 October 2012	-	-	-
Income statement charge	1.8	-	-
Net liability at 30 September 2013	1.8	-	-

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

	2013 £m	2012 £m	2011 £m
Other timing differences	1.8	-	-
Net deferred tax liability	1.8	-	-

52. CURRENT TAX LIABILITIES

(a) The Group

	2013 £m	2012 £m	2011 £m
UK Corporation Tax	5.9	13.3	10.7
	5.9	13.3	10.7

(b) The Company

	2013 £m	2012 £m	2011 £m
UK Corporation Tax	4.8	4.4	3.3
	4.8	4.4	3.3

53. OTHER LIABILITIES

(a) The Group

	2013 £m	2012 £m	2011 £m
Current liabilities			
Accrued interest	20.0	23.4	25.4
Deferred income	0.2	0.3	0.3
Other accruals	13.2	11.8	11.7
Other taxation and social security	2.8	1.2	0.9
	<u>36.2</u>	<u>36.7</u>	<u>38.3</u>
Non-current liabilities			
Deferred income	0.9	1.1	1.4
Other accruals	-	-	0.1
	<u>0.9</u>	<u>1.1</u>	<u>1.5</u>

Accrued interest and other accruals fall within the definition of 'other financial liabilities' set out in IAS 32 and IAS 39 and their fair values are not considered to be materially different to their carrying values.

(b) The Company

	2013 £m	2012 £m	2011 £m
Current liabilities			
Amounts owed to Group companies	74.2	69.2	312.9
Accrued interest	2.1	1.8	3.5
Deferred income	0.1	0.1	0.1
	<u>76.4</u>	<u>71.1</u>	<u>316.5</u>
Non-current liabilities			
Deferred income	0.6	0.7	0.8
	<u>0.6</u>	<u>0.7</u>	<u>0.8</u>

Accrued interest and other accruals fall within the definition of 'other financial liabilities' set out in IAS 32 and IAS 39 and their fair values are not considered to be materially different to their carrying values.

54. NET CASH FLOW FROM OPERATING ACTIVITIES

(a) The Group

	2013 £m	2012 £m
Profit before tax	105.4	95.5
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	2.1	2.1
Amortisation of intangible assets	1.2	1.0
Foreign exchange movement on borrowings	88.8	(344.9)
Other non-cash movements on borrowings	5.9	(0.7)
Impairment losses on loans to customers	15.2	24.1
Charge for share based remuneration	3.1	2.8
Net decrease / (increase) in operating assets:		
Loans to customers	(136.8)	8.2
Derivative financial instruments	(89.6)	351.4
Fair value of portfolio hedges	1.1	2.3
Other receivables	(1.3)	-
Net (decrease) in operating liabilities:		
Derivative financial instruments	(3.3)	(4.5)
Other liabilities	(1.7)	(3.0)
Cash (utilised) / generated by operations	(9.9)	134.3
Income taxes (paid)	(22.0)	(17.0)
	(31.9)	117.3

(b) The Company

	2013 £m	2012 £m
Profit before tax	73.5	65.4
Non-cash items included in profit and other adjustments:		
Depreciation of property, plant and equipment	1.1	1.0
Non-cash movements on borrowings	0.1	(2.0)
Impairment losses on investments in subsidiaries	6.1	116.7
Charge for share based remuneration	3.1	2.8
Net (increase) / decrease in operating assets:		
Other receivables	(34.9)	(0.1)
Derivative financial instruments	-	4.0
Net increase / (decrease) in operating liabilities:		
Other liabilities	5.2	(245.5)
Cash generated / (utilised) by operations	54.2	(57.7)
Income taxes (paid)	(4.4)	(3.2)
	49.8	(60.9)

55. NET CASH FLOW FROM INVESTING ACTIVITIES

	The Group		The Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Proceeds on disposal of property, plant and equipment	-	0.2	-	-
Purchases of property, plant and equipment	(1.0)	(1.6)	-	-
Purchases of intangible assets	(0.6)	(0.8)	-	-
Movement in loans to subsidiary undertakings	-	-	(0.1)	7.6
Investment in subsidiary undertakings	-	-	(61.7)	-
Disposal of subsidiary undertakings	-	-	0.1	-
Net cash (utilised) / generated by investing activities	(1.6)	(2.2)	(61.7)	7.6

56. NET CASH FLOW FROM FINANCING ACTIVITIES

	The Group		The Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Shares issued (note 38)	0.4	-	4.4	2.1
Dividends paid (note 44)	(20.7)	(12.3)	(20.7)	(12.3)
Issue of asset backed floating rate notes	459.1	129.9	-	-
Repayment of asset backed floating rate notes	(237.5)	(254.9)	-	-
Issue of retail bonds	59.0	-	59.0	-
Capital element of finance lease payments	(1.4)	(1.2)	(1.4)	(1.2)
Movement on bank facilities	(143.8)	(43.1)	-	-
Purchase of shares (note 46)	(0.5)	(0.5)	-	-
Sale of shares (note 45)	0.6	0.2	-	-
Net cash generated / (utilised) by financing activities	115.2	(181.9)	41.3	(11.4)

57. RECONCILIATION OF NET DEBT

This disclosure is provided in response to the work of the Financial Reporting Council's Financial Reporting Lab, published in the year. The disclosure is provided for the Group only, as it is not considered that a separate disclosure for the Company would be useful to users.

	Opening debt	Debt issued	Other cash flows	Foreign exchange	Other non-cash changes	Closing debt
	£m	£m	£m	£m	£m	£m
30 September 2013						
Asset backed						
loan notes	7,580.9	459.1	(237.5)	88.8	1.9	7,893.2
Bank borrowings	1,453.3	-	(143.8)	-	1.7	1,311.2
Bank borrowing debits	(2.7)	-	-	-	1.0	(1.7)
Corporate bond	110.0	-	-	-	-	110.0
Retail bonds	-	59.0	-	-	0.1	59.1
Bank overdrafts	0.6	-	0.8	-	-	1.4
Finance leases	11.6	-	(1.4)	-	-	10.2
Gross debt	9,153.7	518.1	(381.9)	88.8	4.7	9,383.4
Cash	(504.8)	(518.1)	435.6	-	-	(587.3)
Net debt	8,648.9	-	53.7	88.8	4.7	8,796.1
30 September 2012						
Asset backed						
loan notes	8,049.7	129.9	(254.9)	(344.9)	1.1	7,580.9
Bank borrowings	1,492.1	-	(40.5)	-	1.7	1,453.3
Bank borrowing debits	-	-	(2.7)	-	-	(2.7)
Corporate bond	112.0	-	-	-	(2.0)	110.0
Retail bonds	-	-	-	-	-	-
Bank overdrafts	0.6	-	-	-	-	0.6
Finance leases	12.8	-	(1.2)	-	-	11.6
Gross debt	9,667.2	129.9	(299.3)	(344.9)	0.8	9,153.7
Cash	(571.6)	(129.9)	196.7	-	-	(504.8)
Net debt	9,095.6	-	(102.6)	(344.9)	0.8	8,648.9

58. OPERATING LEASE ARRANGEMENTS

(a) As lessee

	The Group		The Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Minimum lease payments under operating leases recognised in income for the year				
Office buildings	1.7	2.3	-	-
Motor vehicles	0.3	0.3	-	-
	2.0	2.6	-	-

At 30 September 2013 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group		The Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Amounts falling due:				
Within one year	1.8	2.5	-	-
Between two and five years	4.6	5.6	-	-
After more than five years	-	0.8	-	-
	<u>6.4</u>	<u>8.9</u>	<u>-</u>	<u>-</u>

Operating lease payments represent rents payable by the Group in respect of certain of its office premises and lease payments on company vehicles. The average term of the current building leases is 10 years (2012: 11 years) with rents subject to review every five years, while the average term of the vehicle leases is 3 years (2012: 3 years).

(b) As lessor

Certain of the Group's office premises which were not required by the Group were sub-let. Rental income from these premises during the year ended 30 September 2013 was:

	The Group		The Company	
	2013 £m	2012 £m	2013 £m	2012 £m
Rental income	<u>-</u>	<u>0.3</u>	<u>-</u>	<u>0.3</u>

At 30 September 2013 and at 30 September 2012 the Group had received no outstanding commitments from tenants for future minimum lease payments under non-cancellable operating leases.

59. RELATED PARTY TRANSACTIONS

(a) The Group

On 27 May 2010, Mr A K Fletcher, an independent non-executive director of the Company, was appointed as a trustee of the Group Pension Plan, and during the year became a director of its Corporate Trustee when that was put in place. In respect of this appointment he was paid £10,000 in the year ended 30 September 2013 by Paragon Finance plc, the sponsoring company of the Plan (2012: £10,000).

The Group Pension Plan is a related party of the Group. Transactions with the plan are described in note 50.

The Group had no other transactions with related parties other than the key management compensation disclosed in note 14.

(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 15 to employees of subsidiary undertakings. The Company also issued shares to the trustees of its ESOP trusts, as described in note 38.

Details of the Company's investments in subsidiaries and the income derived from them are shown in notes 26 and 27.

Outstanding current account balances with subsidiaries are shown in notes 36 and 53.

During the year the Company incurred interest costs of £2.2m in respect of borrowings from its subsidiaries (2012: £9.7m).

E. Appendices to the Annual Report

E. Appendices to the Annual Report

For the year ended 30 September 2013

A. COST:INCOME RATIO

Cost:income ratio is derived as follows:

	2013 £m	2012 £m
Cost – operating expenses	58.6	51.9
Total operating income	177.9	170.2
Cost / Income	32.9%	30.5%

The adjusted cost income ratio is calculated by excluding certain financing and operating costs relating to activities not yet contributing to income, and other costs not relating to operations.

	Note	2013 £m	2012 £m
Operating expenses		58.6	51.9
Increase in share based payment charge	13	(0.3)	-
Increase in National Insurance on share based payments	13	(0.9)	-
Costs of developing banking subsidiary		(1.3)	-
Adjusted cost		56.1	51.9
Total operating income		177.9	170.2
Retail bond cost	10	2.1	-
Warehouse costs prior to first drawing		1.5	-
Adjusted income		181.5	170.2
Adjusted cost / income		30.9%	30.5%

B. UNDERLYING PROFIT

Underlying profit is determined by excluding from the operating result certain costs of a one off nature, which do not reflect the underlying business performance of the Group, and fair value accounting adjustments arising from the Group's hedging arrangements.

	2013 £m	2012 £m
First Mortgages		
Profit before tax for the period (note 7)	65.7	63.2
Less: Fair value losses / (gains)	(1.3)	(1.6)
	64.4	61.6
Consumer Finance		
Profit before tax for the period (note 7)	39.7	32.3
Less: Fair value losses / (gains)	-	0.3
	39.7	32.6
Total		
Profit before tax for the period (note 7)	105.4	95.5
Less: Fair value losses / (gains)	(1.3)	(1.3)
	104.1	94.2

C. NET ASSET VALUE PER SHARE

Net asset value per share is derived as follows:

	Note	2013	2012
Total equity (£m)		873.3	803.5
Outstanding issued shares (m)	38	306.2	301.8
Treasury shares (m)	46	(0.7)	(0.7)
Shares held by ESOP schemes (m)	46	(1.9)	(2.3)
		303.6	298.8
Net asset value per £1 ordinary share		288p	269p

Contacts

Registered and Head Office	51 Homer Road Solihull West Midlands B91 3QJ Telephone: 0121 712 2323
Investor Relations email	investor.relations@paragon-group.co.uk
Internet	www.paragon-group.co.uk
London office	Tower 42 Level 12 25 Old Broad Street London EC2N 1HQ
Auditors	Deloitte LLP Chartered Accountants Four Brindleyplace Birmingham B1 2HZ
Solicitors	Slaughter and May One Bunhill Row London EC1Y 8YY
Registrars and Transfer Office	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ Telephone: 0870 707 1244
Brokers	Jefferies Hoare Govett Vintners Place 68 Upper Thames Street London EC4V 3BJ UBS Limited 1 Finsbury Avenue London EC2M 2PP
Remuneration consultants	New Bridge Street 10 Devonshire Square London EC2M 4YP
Consulting actuaries	Mercer Limited Four Brindleyplace Birmingham B1 2JQ

By Carbon Balancing the material used to produce this publication we have:

- Saved 1,843 Kilograms of CO2.
- Preserved 154.81 Square metres of Land.

The estimated carbon impact of this publication comes from a calculator developed by the Edinburgh Centre of Carbon Management (ECCM). It is derived from data supplied by the paper mill or, where this is not available, generic industry factors as determined by ECCM.

The estimated carbon impacts are measured with the point of delivery being the printer's doorstep.

What is Carbon Balanced Paper?

Carbon Balanced, put simply, is where the carbon impact of a product or service has been estimated and an equivalent amount of carbon dioxide is either prevented from being released or is absorbed from the atmosphere. Carbon Balancing is facilitated by the World Land Trust, an ecological charity which ensures a company's peace of mind regarding the credibility and integrity of how carbon impacts are balanced (offset). Carbon Balancing is achieved through land purchase of ecologically important standing forests, under imminent threat of clearance, where carbon is locked that would otherwise be released. These protected forests are then able to continue absorbing carbon from the atmosphere.



**WORLD
LAND
TRUST™**

www.carbonbalancedpaper.com
CBP00072340312132635



The Paragon Group of Companies PLC 51 Homer Road Solihull West Midlands B91 3QJ
Telephone: 0121 712 2323 www.paragon-group.co.uk Registered No. 2336032